

BUDGET OVERVIEW

The City of Flagstaff FY 2007 Financial Plan presents a fiscally sound and balanced budget that maintains the integrity of the City's financial condition while still meeting the service level demands of a community that expects quality services. The Financial Plan is balanced not only financially, but also equally as important, balances the allocation of resources among operating

requirements, capital needs, debt burden, and strong reserves for future needs and contingencies.

This section briefly describes the document *Format and Presentation*; the *Assumptions and Strategies* which formed the working parameters of the budget development; *Highlights of Appropriations, Revenues, and Capital Improvements Plan (CIP)* for FY 2007; *Debt Structure*; and the *Fund Balances*, which are the operating framework of the Financial Plan.

FINANCIAL RESOURCES AVAILABLE

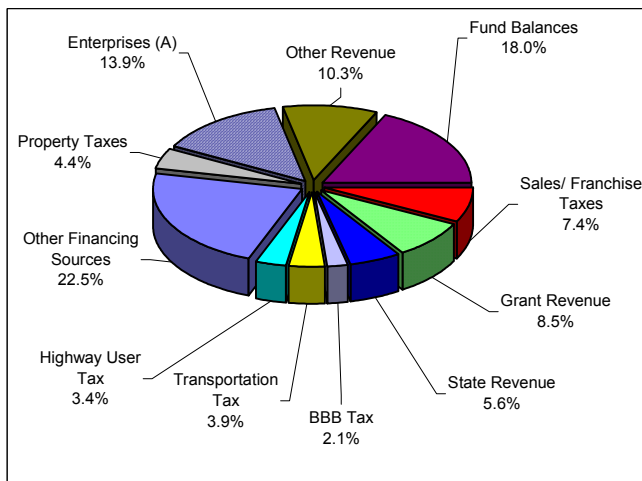
Sales/Franchise Taxes	\$	17,294,405	7.4%
Grant Revenue		19,298,118	8.5%
State Revenue		12,736,988	5.6%
BBB Tax		4,657,883	2.1%
Transportation Tax		8,746,589	3.9%
Highway User Tax		7,659,080	3.4%
Other Financing Sources		50,965,599	22.5%
Property Taxes		9,876,127	4.4%
Enterprises (A)		31,453,302	13.9%
Other Revenue (B)		23,380,236	10.3%
Fund Balances		40,826,198	18.0%
	\$	<u>226,894,525</u>	<u>100.0%</u>

(A) Enterprises:

Water	\$	11,598,026
Wastewater		7,973,600
Airport		1,264,725
Environmental Services		9,617,577
Stormwater Utility		999,374
	\$	<u>31,453,302</u>

(B) Other Revenue:

Licenses and Permits	\$	2,587,783
County Vehicle Tax		2,601,000
Charges for Services		2,108,650
Fines and Forfeits		1,009,701
County Contribution		3,101,501
Interest on Investments		1,573,496
LTA/Misc Revenue		10,398,105
	\$	<u>23,380,236</u>



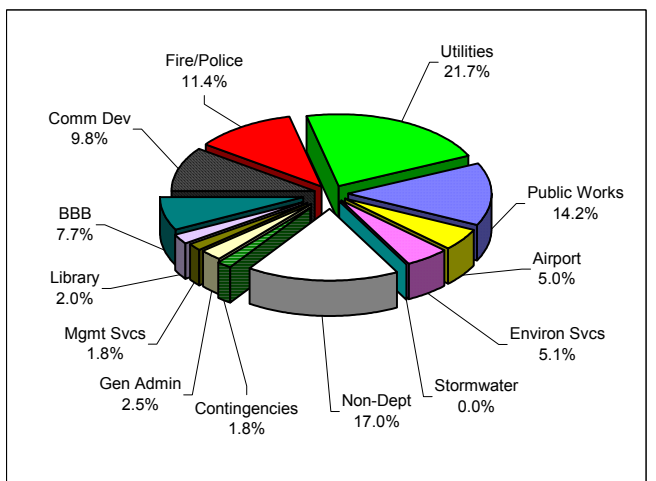
"WHERE THE MONEY COMES FROM"
\$226,894,525

TOTAL APPROPRIATIONS

General Administration	\$	5,780,417	2.5%
Management Services		4,098,404	1.8%
Library		4,460,741	2.0%
BBB (A)		17,416,988	7.7%
Community Development		22,346,819	9.8%
Fire/Police		25,770,459	11.4%
Utilities		49,220,978	21.7%
Public Works		32,158,664	14.2%
Airport		11,354,364	5.0%
Environmental Services		11,584,326	5.1%
Stormwater		1,267,010	0.0%
Non Departmental		38,490,355	17.0%
Reserves/Contingencies		2,945,000	1.8%
	\$	<u>226,894,525</u>	<u>100.0%</u>

(A) BBB Tax Funds:

Beautification	\$	9,542,128
Tourism		1,822,828
Economic Development		621,400
Arts and Science		621,487
Recreation-BBB		4,809,145
	\$	<u>17,416,988</u>



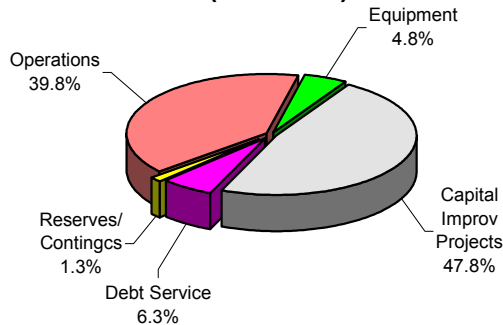
"WHERE THE MONEY GOES TO"
\$226,894,525

The following graphs depict the major classifications of appropriation for the total 2006-2007 budget and expenditures by major types.

TOTAL APPROPRIATIONS

Operations	\$ 90,452,395
Equipment	10,781,867
Capital Improvement Projects	108,458,991
Debt Service	14,256,272
Reserves/Contingencies	2,945,000
	<u>\$ 226,894,525</u>

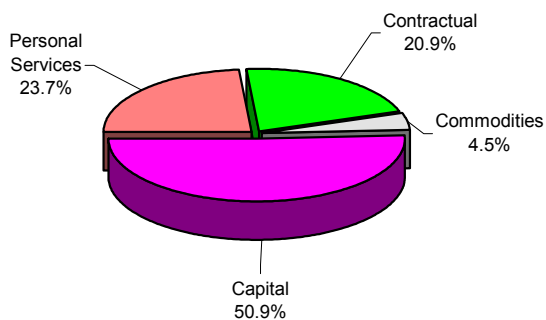
TOTAL APPROPRIATIONS (all funds)



EXPENDITURES BY TYPE

Personal Services	\$ 53,987,938
Contractual	47,325,101
Commodities	10,147,958
Capital	115,433,528
	<u>\$ 226,894,525</u>

EXPENDITURES BY TYPE (all funds)



OPERATING EXPENDITURES BY DEPARTMENT

City operations include the traditional municipal services citizens expect their local government to provide. Operating expenditures exclude capital improvements, capital equipment, debt service and reserves. The department budgets are presented to include division budgets and Departmental (organizational structure) responsibilities as defined by the City Code.

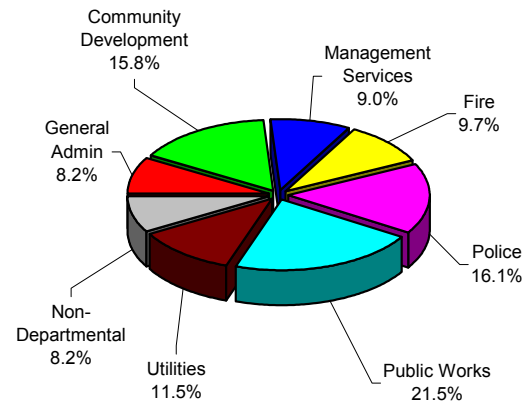
OPERATING BUDGET *

General Administration	\$ 7,393,708
Community Development	14,281,677
Management Services	8,143,645
Fire	8,757,924
Police	14,594,428
Public Works	19,404,120
Utilities	10,367,715
Non-Departmental	7,509,178
	<u>\$ 90,452,395</u>

* Exclusive of Debt Service

\$ 14,256,272

OPERATING BUDGET



General Administration activities comprise 8.2% of the budget (\$7.4 million). The divisions within this Department provide for the overall management and administration of the City, as well as enforcement of municipal laws through legal support and the courts. This department consists of City Manager, City Clerk, City Attorney, City Court, Human Resources, Risk Management, Tourism and Visitor Services.

Community Development comprises 15.8% of the operating budget (\$14.3 million), excluding the debt service requirements for Fourth Street (\$2.0 million). The services in this Department include Development Services, Community Improvement, Community Investment, Capital Improvements, Transportation, Stormwater, MPO, Housing and Community Services, Urban Design, Arts & Sciences, and CD Administration. The services provided by these divisions meet the current needs of the community and plan for the future.

Management Services comprises 9.0% of the operating budget (\$8.1 million). The department encompasses those activities that provide administrative support and services including financial services, purchasing, information systems, sales tax, and real estate. The City/County public library system is also included within the department.

Fire Department services comprise 9.7% of the operating budget (\$8.8 million). The Department's public

safety programs provide both personal safety in the community with proactive attention to preventable disasters and sense of well being through timely emergency response.

Police Department activities comprise 16.1% of the operating budget (\$14.6 million). Public safety programs provide personal safety in the community by promoting a community free of crime and assured response in emergency situations.

Public Works comprises are provided by nine divisions that account for 21.5% of the operating budget (\$19.4 million), excluding the debt service requirements for streets (\$2.4 million), Airport (\$0.6 million), and USGS facility (\$0.9 million). The services provided include environmental service operations, cemetery operations, maintenance of all public facilities and public infrastructure including streets and parks, airport operations, fleet services, and recreation programming.

Utilities Department comprises 11.5% of the operating budget (\$10.4 million), excluding \$5.2 million debt service requirements. Five divisions within water operations and four divisions within wastewater operations provide services that promote a clean and healthy community by providing a safe water supply and proper waste disposal.

Non-Departmental operations comprise 8.2% of the budget (\$7.5 million) exclusive of \$3.2 million debt service. Some divisions are contractual in nature and include Contributions to Other Agencies, Economic Development, and the Pension Trust Fund. The Council and Commission and Non-departmental budgets account for expenditures that benefit City operations as a whole.

BUDGET FORMAT AND PROCESS

The budget and financial plan for the City of Flagstaff is the policy document that reflects the goals and objectives of the City Council. These goals and objectives are implemented through the policies and priorities established by the Council as well as the various Boards and Commissions appointed by Council. The Office of the City Manager is then responsible for implementing these policies and priorities utilizing the allocation of financial resources. The annual review process provides the community an opportunity to evaluate the services provided to the citizens of the community. Programs are identified, evaluated, and the scope of service provided is defined. The staffing level needed to provide the service level deemed appropriate by Council is determined. Additionally, funding requirements and level of effort to be provided are established.

FORMAT

The Department Detail presents each operating activity at the division level with a *division mission, description of programs, specific goals and objectives* for FY 2007, *major accomplishments* in FY 2006, and *performance indicators* that measure the efficiency and/or effectiveness at the program level.

To assist the City Manager in the management of the resources expended by the municipality, the budget also serves as an operational guide. The operating budget presentation includes, for comparative purposes, the *Actual Expenditures for FY 2005*, the *Estimated Actual for FY 2006*, and the *Adopted Budget for FY 2007*. Expenditures are shown by category as well as cost center (program/activity). The comparatives in the Financial Summaries Section are presented at the fund level and the department level to aid division and program managers in budget tracking and accountability.

Categories presented are:

- Personal Services (salaries, fringe benefits, internal labor, et al)
- Contractual (professional services, utilities, maintenance, rents, debt service, et al)
- Commodities (small equipment, parts, office supplies, operating supplies, et al)
- Capital Outlay (professional services, land, buildings, street, water and sewer construction, equipment, et al)

Fund, Department, and Division Structure:

The City uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses.

Within each Fund there may be several Departments. Departments also may encompass several Funds. The Department level is the legal level of budget authority.

Departments are groups of Divisions that serve a similar function with the City. In addition, within each Division are Programs, which capture all expenditures related to an activity, cost center, or location of operation within a division.

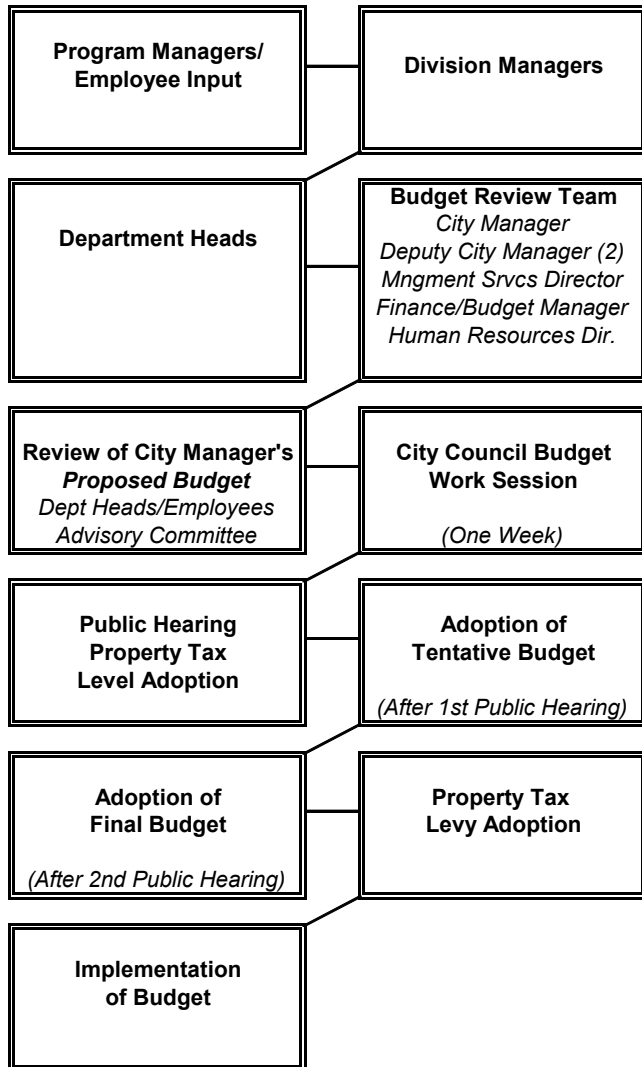
The following table represents the structure for the City.

Illustration of Relationship between Funds, Departments, and Divisions

DEPARTMENTS	General Administration	Management Services	Community Development	Fire	Police	Public Works	Utilities	Non-departmental
FUNDS								
General Fund	City Manager City Clerk Human Resources Risk Management City Attorney Municipal Court	Information Systems Management Services Administration Tax, Licensing & Revenue Finance & Budget	Administration Capital Improvements Development Services Community Improvements Community Investment	Fire	Police	Administration Parks Fleet Cemetery Facilities Maintenance Recreation		Council and Commission Contributions Non-departmental
Library		Library						
Highway User Revenue						Street Maintenance & Repairs		
Transportation			4th Street Overpass Safe to School Safety Improvements					Transit
Economic Development								Economic Development
Beautification			Beautification					
Tourism	Convention & Visitors Bureau Visitor Services							
Recreation						Recreation		
Arts & Science			Arts & Science					
Real Estate Proceeds								Real Estate Proceeds
Housing and Community Services			Housing and Community Services					
Metropolitan Planning Organization			Metropolitan Planning Organization					
G.O. Bond Fund								G.O. Bond Fund
Secondary Property Tax								Secondary Property Tax
Special Assessment								Special Assessment
Perpetual Care								Perpetual Care
Capital Projects Bond								Capital Projects Bond
Water & Wastewater							Administration Lake Mary Water Treatment Plant Customer Service Water Distribution Services Booster Stations Wastewater Treatment Plants Wastewater Collection Wastewater Monitoring	
Airport						Airport		
Environmental Services						Environmental Services		
Stormwater			Stormwater					
Expendable Trust								Firemen's Pension

PROCESS

Budget Process Flowchart:



Presentation:

- The *Transmittal* provides a summary of the key policy issues, priorities, and strategies that shaped the budget as framed by the City Manager.
- The *Budget Overview* summarizes financial resources and expenditures along with fund summaries and an overview of selected revenues.
- *Policies and Procedures* provide an overview of both fiscal and budgetary practice.
- Budget Issues were prepared for Council review and discussion during their Fall and Spring retreat and the budget study sessions. Highlights of the issues reviewed are included in the *Issues and Updates* section.
- The *Financial Summaries* section includes various schedules utilizing revenue and expenditure classifications and tax levy information in accordance with state reporting requirements as mandated by statute. Expenditures are reported at both the fund level and the department level for operational control purposes.

- The *Department Detail* section provides both narrative and financial data. The budget commentary provides an explanation of significant budget changes for FY 2007.
- The *Capital Improvement Plan* (CIP) for FY 2007 lists projects, costs, and funding sources in the Capital Improvement (CIP) Section.
- The *Community Profile* section outlines key factors that contribute to the uniqueness of our community.
- A detailed listing of personnel and changes over the last five years is provided in the *Appendix* Section.

BUDGET CALENDAR

January	Budget Module available to all Divisions
February 6	Capital improvement and equipment requests reviewed by Capital Improvements and Purchasing
March 13 - March 31	Review with Department Heads and City Manager
March	Personnel review of reclassification requests completed
May 18-19	Council Study Sessions Proposed Budget available to public
June 20	Public Hearing/Tentative Adoption of Proposed Budget Public Hearing on Tax Adoption
June 23	Notify Property Tax Oversight Commission of Compliance with Truth in Taxation
June 28	Publish first notice of Public Hearing for Final Adoption
July 5	Publish second notice of Public Hearing for Final Adoption
July 10	Public Hearing on Budget and Final Adoption of Budget
July 24	Adopt Property Tax Levy

Review and Approval: Issues presented during the review and approval period include discussion topics of the Council Fall and Spring retreats. The Fall and Spring retreats were held in November and March respectively, to give city staff the opportunity to present major discussion points to Council and the public. The goal is for Council to make policy decisions and direct staff in preparing the budget. This provides adequate time for the Council to gather input on major budget issues prior to preparation of the budget. The City Council holds Study Sessions in May. The Council reviews and discusses the issue papers included in the Budget Review Book as well as all personnel

recommendations, capital equipment recommendations, and the capital improvement plan. The Council arrives at a consensus for all decisions needed. The Study Sessions provide the opportunity for City management, departments and the public to offer information and recommendations to the City Council.

The Proposed Budget is presented to Council for tentative adoption on or before the third Monday in July. Two public hearings are held on the content of the budget. Final adoption occurred on July 10, 2006. State law requires the operating budget to be all-inclusive. Therefore, the budget includes provisions for contingent revenues, e.g., Passengers Facility Charges, and expenditures that cannot be accurately determined when the budget is adopted, e.g., grants. The Resolution adopting the annual budget requires Council authorization for any expenditure from contingencies, as well as transfer of budget authority between departments.

Adoption: The City operates under the State Expenditure Limitation with a one-time adjustment to the base. The adjustment provided for an increase to the base limit to allow for the expenditure of funds resulting from the addition of a 2% Bed, Board, & Booze Tax. Flagstaff is not a Home Rule city. Alternative [Home Rule] Expenditure Control municipalities require voter approval every four years.

The City received voter approval in the May 2006 general election for an additional adjustment to the expenditure limitation base. This permanent adjustment will be effective in the FY 2007 budget year and increases the current expenditure limitation by approximately \$25,000,000.

The Adopted Budget reflects the total funds appropriated (\$226,894,525). Certain exclusions are allowed by the state [e.g., bond proceeds, debt service, grants] in computing the Expenditure Limitation (\$105,535,929), and this total cannot be exceeded.

Budget authority can be transferred between line items within a Division. At year-end, Department budgets are reviewed and budget authority is transferred from contingencies by Resolution as necessary. Additionally, any inter-fund transfer of appropriations requires Council approval. Council can also amend total appropriations for a fund during the year by Resolution as long as there is a corresponding increase/decrease in another fund so that the expenditure limitation is not exceeded.

ASSUMPTIONS AND STRATEGIES

ECONOMIC OVERVIEW

In FY 2007, City sales tax revenue is budgeted to exceed the FY 2006 estimated actual by 9.1%. The trends reflect an overall increase in the economy. Construction revenues are expected to increase due to

several large construction projects, including the Mall and several large housing developments. In addition, the City Council removed most sales tax exemptions (except on food), effective October 1, 2006. The BBB category shows a 4.4% (\$194,524) budget to estimated actual increase.

For 2007, the City and most of the rest of the State of Arizona municipalities will use DES population estimates. These estimates reflect a more accurate count of our City's population and reflect a slight increase in Flagstaff's proportionate share of population in comparison to the rest of the State. In addition, the State of Arizona continues to rebound after almost three years of negative or no growth.

REVENUE FORECAST

State-shared revenues for sales and income tax are experiencing significant increases (5.0% and 22.3%, respectively) due to the recovering economy and the updated census estimates. State shared income tax receipts are based on actual collections from two years prior. State sales tax receipts are distributed based on actual collections of the state.

State shared revenue was impacted in the most recent legislative session with the enactment of a phased 10% personal income tax cut. Cities and towns will not see the impact of the reduced tax base until FY 2009. A "hold harmless" for FY 2009 in the form of a \$717 million dollar appropriation, was enacted as part of this year's budget agreement. As this appropriation is only a line item in this year's state budget, there may be a future threat to its availability. The City will have to be prepared for decreased state revenue potential effective FY 2010.

Due to changes in legislation, the City will experience a decrease in primary property tax revenues for FY2007 that may become permanent should the voters pass a November 2006 ballot measure that permanently decreases the primary property tax levy base. This legislation was enacted very late in the budget process so the City continues to reflect primary property tax revenues based on the previous maximum levy amount. In actuality, the City will realize approximately \$400,000 less in primary property tax revenue in FY2007 than is currently reflected in the General Fund budget. The City will make up this shortfall through reductions in the Public Safety Retirement System contributions for FY2007 that came in at rates less than originally budgeted.

Highway user tax and local transportation assistance are projected to end the year over budget and HURF revenue is budgeted to grow 3.0% (\$223,080). The City continues to anticipate growth based on the current ADOT formula to distribute revenue.

Funds previously diverted from the highway fund to pay other debt has been paid off through the current year state surplus. This allows for overall additional funding availability.

County revenues for auto in lieu tax (license tags) are expected to increase by approximately 2.0% in FY 2007 and have grown by 44.2% since FY 2002. The increase is based on continued local strength in auto sales. These increases were spurred by the lengthy car incentives offered over the last five years.

The Utility Fund continues to anticipate a rate increase, dependent on the timing of project development and bond sales as related to those projects approved in the May 2004 bond election.

The Environmental Services Fund also anticipates fee increases for commercial refuse and recycling accounts in late 2006. Residential rates continue to be under review, with a tentative time frame of a rate increase in late 2007.

The Stormwater Fund has approval for a rate increase to be effective July 2006 to fund additional requirements under the NPDES permitting process and to fund a spot improvement program as an initial effort to address flooding issues throughout the City. Additional incremental increases will be applied for the following four fiscal years. The rate is increasing to \$0.92 per equivalent runoff unit (ERU) in FY2007 from \$0.53 in FY 2006. The additional increases through FY 2010 will bring the rate up to a total of \$1.30 per ERU.

EXPENDITURES

The adopted budget is based on fiscal restraint consistent with conservative and sustainable revenue estimates. The base budget approach has required operational cost reviews and redistributions of all Departments.

Efforts to Control Expenditures – The Fleet Management Committee reviews all equipment replacement requests and prioritizes those needs. A long-range planning approach is utilized to level cash flow requirements from one year to the next. The Fleet Committee has developed a five-year plan and continues the process of reviewing the plan to identify cash flow needs and develop alternatives to better allocate future resources. Due to varying demands, the Fleet budget is flexible, allowing monies to shift within the five-year planning period.

Due to the continued drought conditions experienced throughout the Southwest, the City has allocated an additional \$250,000 in contingency funds to be used for wild land fire defense as needed.

Fund Balance – The carryforward of fund balances remain at a level that protects the financial integrity of the City. Moody's bond rating for the City is Aa3. The

projected fund balance at the end of FY 2007 is estimated at \$11,090,952 in the General Fund. A general fund balance equal to 15% of general fund revenues is anticipated to maintain a sound financial position. The General Fund balance is currently budgeted at 22.9%.

The FY 2007 budget continues to use excess fund balances for one-time capital expenditures, facilities and redevelopment. In addition, a portion of the current fund balance represents carryforward of expenditures in equipment and capital projects.

The City of Flagstaff held a bond election in May 2004. A total of 13 projects were offered individually for \$172.5 million. Ten projects totaling \$155.2 million passed. These projects are funded through lease agreements, secondary property taxes, and user fees. The FY 2007 budget includes some revenues and expense for certain projects including \$31.5 million in bonds that were sold April 2006. The citizens may realize a future increase in water/sewer rates, however the projects funded through the secondary property taxes will be timed so that no increase would be necessary.

Council Guidelines – The budget guidelines set forth by the City Manager were formulated based on Council concerns and goals. The Council developed ten goals that encompass the areas of Affordable Housing, Economic Development and Redevelopment, Capital Improvement, Public Safety, Customer Service, Quality of Life, Fiscal Health, Organizational Support, Collaboration, and Planning for Growth.

- *Estimated Actual Expenditures FY 2006.* Divisions were asked to estimate expected expenditures by line item for FY 2006. Overages and underages (and reasons, theretofore) were used to adjust the recommended budget for various line items in FY 2007. This resulted in a reduction of a substantial number of line items, thereby allowing resources to be reallocated without inflating the total appropriations required.
- *Staffing Requests/Increases in Level of Service.* Departments were required to provide narratives for increases in service levels and addition of staff. New staff additions were encouraged to have an independent funding source, were needed to maintain current service levels, or reinstated previous position eliminations as identified through the work force reduction plan.
- *Fleet Management.* All fleet equipment replacement requests were reviewed and prioritized by the Fleet Management Committee within financial parameters.
- *Information Systems.* Management Information Systems Staff reviewed hardware and software needs. Funding was established to maintain funding at a level dollar amount to meet existing and future needs for current service levels including upgraded equipment and software.
- *Capital Improvements.* The Capital Improvement staff reviewed all requests of capital projects or

public improvements that require time charge outs from that division.

- **Operational Impacts.** All funds are continually evaluated relative to five-year financial projections. Increased service levels due to new programs or capital construction were projected to determine operating impacts in future years.

FUND SUMMARIES

GENERAL FUND

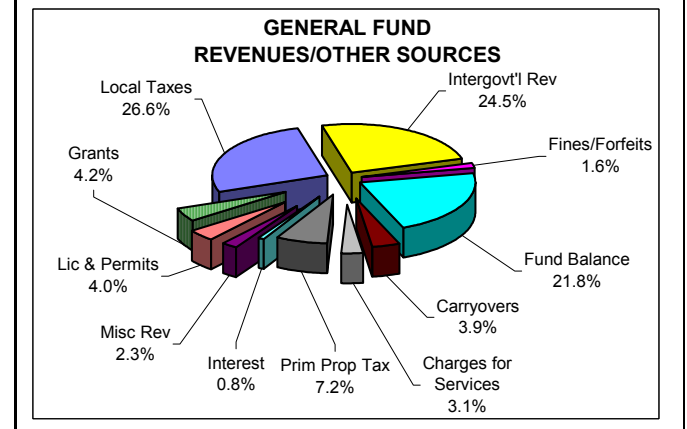
The General Fund includes all City operations, except enterprise activities (operations which are to be self-sustaining), e.g., Utilities, Environmental Services, the Airport, and Stormwater; activities funded from a special revenue source dedicated to that activity, e.g., the BBB Tax funds, the Transportation tax funds, Streets; Library; Housing and Community Services; and Transportation Planning (MPO).

Total resources available for General Fund expenditures for FY 2007 are \$65.1 million including the beginning fund balance of \$24.3 million. A substantial portion of General Fund resources comes from two revenue categories: 1) local sales and franchise taxes and 2) intergovernmental revenues (specific detail including comparative data, is shown in Schedule 3 of Financial Summaries Section). A more detailed review of major revenue categories, including historical trend information, is provided following the fund summaries.

Property tax estimates are based on the assessed valuation of property as determined by the Coconino County Assessor. The primary property tax rate was anticipated to be \$0.8261 in FY 2007, generating approximately \$4.8 million in primary property tax revenue. This rate included a 4 cent shift from the secondary property tax levy. This assessment represented approximately 48% of the maximum allowable levy under Arizona statute. However, due to changes in legislation, the City will experience a decrease in primary property tax revenues for FY2007 that may become permanent should the voters pass a November 2006 ballot measure that permanently decreases the primary property tax levy base. This change decreases primary property tax revenues by approximately \$400,000. The City will make up this shortfall through reductions in the Public Safety Retirement System contributions for FY2007 that came in at rates less than originally budgeted. This change also resets the property tax levy base so the City will be at 100% of the levy.

General Fund revenue/other sources compared to the year-end estimates and the prior year budget have increased by 1.7% and 22.2%, respectively. The City is anticipating growth in City sales tax, state shared revenues, grants, and new development review fees in FY 2007.

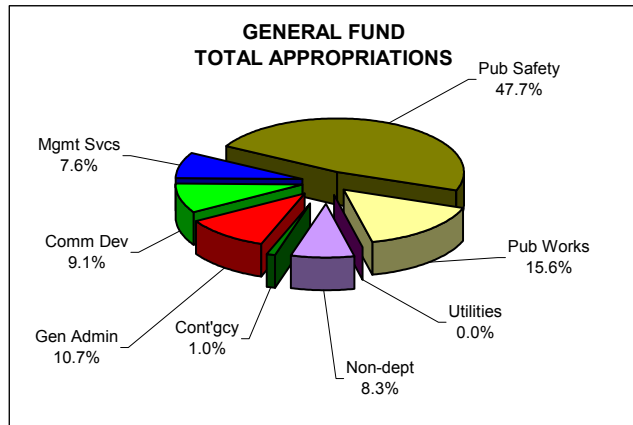
REVENUES/OTHER SOURCES	EST ACTUAL	BUDGET
	FY2006	FY 2007
Licenses and permits	\$ 2,827,688	\$ 2,587,783
Grants	1,651,740	2,749,533
Local taxes	15,965,905	17,294,405
Intergovernmental	14,337,356	15,922,828
Fines and forfeits	998,519	1,009,701
Fund Balance, net of Transfers	20,440,677	14,164,432
Fund Balance for Carryovers	35,000	2,509,553
Charges for services	1,686,515	2,041,860
Primary Property Tax	4,172,330	4,654,071
Interest	693,000	511,798
Miscellaneous	1,161,290	1,632,131
	\$ 63,970,020	\$ 65,078,095



General Fund total appropriations compared to year-end estimates and the prior year's budget have increased by 36.2% and 19.9% respectively. The increase is due to increases in salaries, benefits, insurance, and capital projects. The city completed a 9% pay plan adjustment so that 100% of staff members are eligible for an average of 3.2% merit increase, for at least the next two years. In addition health insurance, dental insurance, the dependent subsidy and retirement all increased. Also, a number of capital items were carried over including Redevelopment, and a Type 1 fire engine.

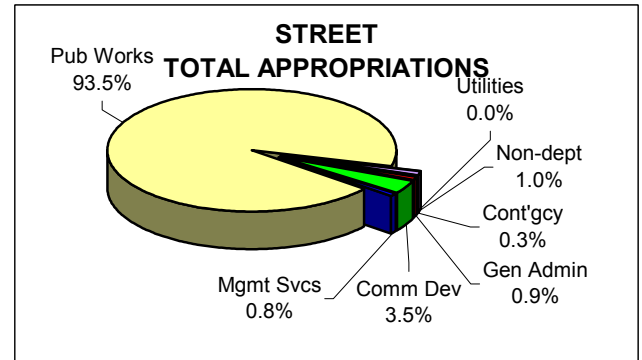
The financial position of the General Fund (after cost allocation distribution) remains strong. Accumulated funds will continue to be spent in Flagstaff for development opportunities.

APPROPRIATIONS	EST ACTUAL FY2006	BUDGET FY 2007
General Administration	\$ 5,002,598	\$ 5,780,417
Community Development	3,641,191	4,912,169
Management Services	3,359,661	4,098,404
Public Safety	22,614,068	25,770,459
Public Works	6,439,941	8,434,929
Utilities	28,757	14,932
Non-departmental	(1,740,756)	4,475,833
Contingencies	280,000	500,000
	<u>\$ 39,625,460</u>	<u>\$ 53,987,143</u>



APPROPRIATIONS

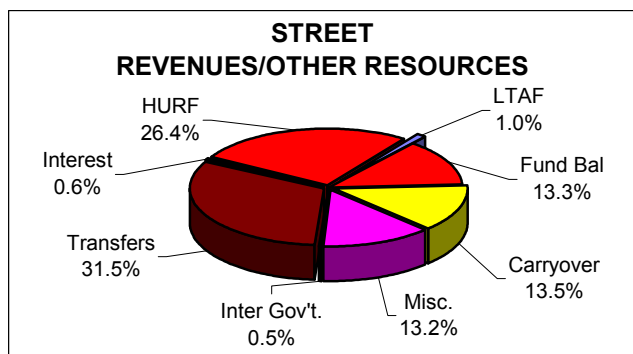
General Administration	\$ 230,386
Community Development	884,940
Management Services	205,898
Public Works	23,906,500
Utilities	3,503
Non-departmental	250,476
Contingency	100,000
	<u>\$ 25,581,703</u>



HIGHWAY USER REVENUE FUND

REVENUES/OTHER RESOURCES

HURF	\$ 7,659,080
LTAF (lottery)	300,246
Fund Balance	3,845,612
Fund Balance for Carryovers	3,905,443
Miscellaneous	3,820,000
Intergovernmental	137,510
Transfers (net)	9,114,619
Interest	194,000
	<u>\$ 28,976,510</u>



The Highway User Revenue Fund (HURF) is mainly supported by transportation related taxes distributed to the Cities and Counties by the State. Appropriations total \$25.6 million in FY 2007. Projects budgeted includes the annual pavement maintenance program, East Flagstaff Gateway, and Sunnyside Street Improvements.

TRANSPORTATION FUND

The Transportation Fund was formed in FY 2001 as a result of voter authorization on May 16, 2000 to increase sales taxes to support four transportation issues. The tax increase is valid for twenty years. The Sales Tax revenue collected for transportation is recorded in this fund. The expenditures related to Transit and 4th Street Overpass are appropriated in this fund. Expenditures related to Safety Improvements and Street Improvements are accounted for in the HURF and Beautification funds. Appropriate transfers are made to fund the various projects that this tax supports.

Projects	Budget FY 2007 Revenues
4th Street Overpass	\$ 2,328,546
Safe-to-School, Pedestrian and Bike	1,164,268
Traffic Flow and Safety Improvements	2,706,932
Transit Service Enhancements	2,546,843
Totals	<u>\$ 8,746,589</u>

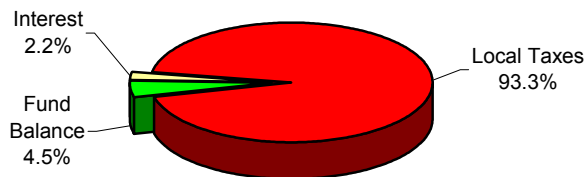
Appropriations total \$4.7 million in FY 2007. Appropriations are comprised of \$2.8 million for transit operations, \$2,840 for the 4th Street overpass, and \$1.9 million for debt service. Transfers include \$6.4 million to the HURF Fund for Safety and Street Improvements and \$1.4 million to fund FUTS projects in Beautification from Safety and Street Improvements, and \$0.2 million to BBB Recreation. The combined transportation tax rate for FY 2007 is 0.601%.

TRANSPORTATION FUND (CONTINUED)

REVENUES/OTHER RESOURCES

Local Taxes	\$ 8,746,589
Fund Bal, net of Transfers	425,555
Interest	211,000
	<u>\$ 9,383,144</u>

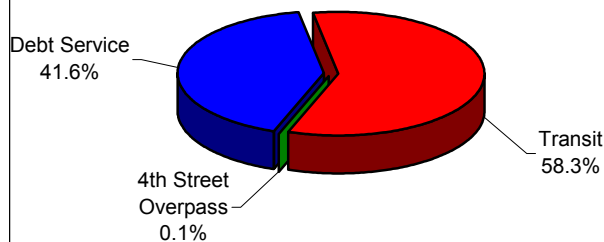
TRANSPORTATION REVENUES/OTHER RESOURCES



APPROPRIATIONS/TRANSFERS

Transit	\$ 2,762,433
4th Street Overpass	\$ 2,840
Debt Service	1,969,100
	<u>\$ 4,734,373</u>

TRANSPORTATION TOTAL APPROPRIATIONS/ TRANSFERS

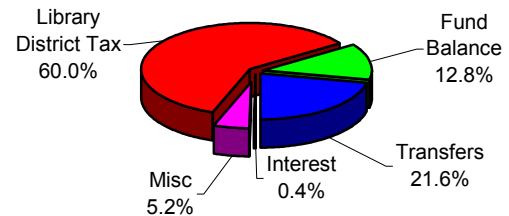


LIBRARY FUND

REVENUES/OTHER RESOURCES

Library District Tax	\$ 3,101,501
Fund Balance	659,214
Transfers (net)	1,117,315
Interest	21,000
Miscellaneous	269,000
	<u>\$ 5,168,030</u>

LIBRARY REVENUES/OTHER RESOURCES



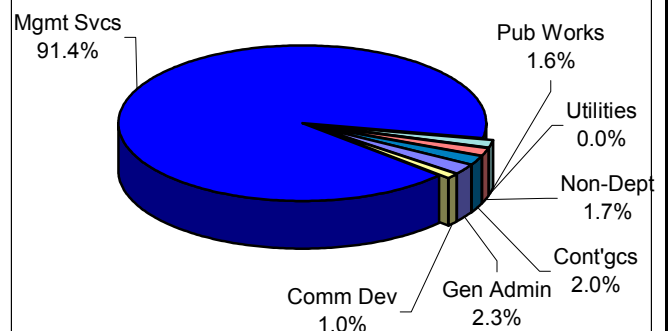
The City operates a joint City-County Public Library with auxiliary programs in outlying county locations and bookmobile services. \$3.1 million of the funding for library operations comes from the library district tax.

During 1997, the County, in concert with the affected entities throughout, developed a new funding formula for the distribution of the tax. The formula provides a base amount for all entities and the distribution of any additional monies as directed by the Library Council with affirmation by the County Board of Supervisors.

APPROPRIATIONS

General Admin	\$ 113,206
Community Development	50,242
Management Services	4,565,601
Public Works	80,077
Utilities	1,195
Non-Departmental	83,696
Contingencies	100,000
	<u>\$ 4,994,017</u>

LIBRARY TOTAL APPROPRIATIONS



BBB FUNDS

A dedicated 2% Bed, Board and Booze sales tax collected on the services provided by lodging, restaurants and bars, was approved by voters in 1988 with a sunset clause in 10 years and extended by the voters for 15 years in the 1996 general election. The BBB tax approved by voters will expire in 2013. The funds were allocated into the following percentages:

Economic Development	9.5%
Beautification	20.0%
Tourism	30.0%
Recreation	33.0%
Arts & Science	7.5%

Since inception, the City has experienced a continual growth in BBB revenues. Revenue for fiscal year 2007 is anticipated to have a growth of 4.4%. Activities funded with the revenues have made operating adjustments necessary and these changes will be reflected within each five-year plan.

Beautification Fund: Total resources available for Beautification Fund activities amount to \$9.6 million including carryovers and approved grants. Expenditures from this fund are primarily for capital improvements. (See the CIP Section for project list.)

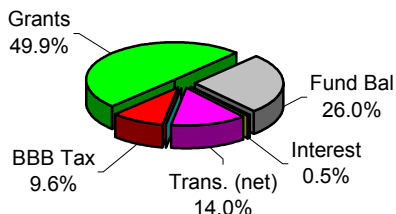
REVENUES/OTHER RESOURCES

BBB Tax	\$ 931,577
Grants	4,817,744
Fund Balance	2,505,716
Interest	49,300
Transfers (net)	1,350,799
	<u>\$ 9,655,136</u>

APPROPRIATIONS

Community Development	\$ 9,542,128
Reserve	10,000
	<u>\$ 9,552,128</u>

BEAUTIFICATION REVENUES/OTHER RESOURCES



Tourism Fund: Total resources available in FY 2007 are \$1.9 million. The total appropriations are \$1.8 million, which includes a \$50,000 reserve for contingencies.

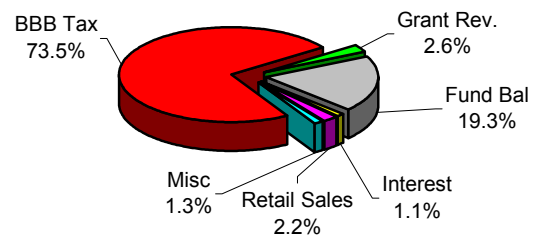
REVENUES/OTHER RESOURCES

BBB Tax	\$ 1,397,365
Grant Revenues	50,000
Fund Bal, net of Transfers	367,203
Interest	21,013
Retail Sales	42,000
Miscellaneous	25,000
	<u>\$ 1,902,581</u>

APPROPRIATIONS

General Administration	\$ 1,822,828
Reserve	50,000
	<u>\$ 1,872,828</u>

TOURISM REVENUES/OTHER RESOURCES



Expenditures include ongoing marketing programs and one-time expenditures for capital. Included in the budget for Tourism is a strategic plan intended to provide guidance in determining markets, promotion directed at these markets, and measurement tools.

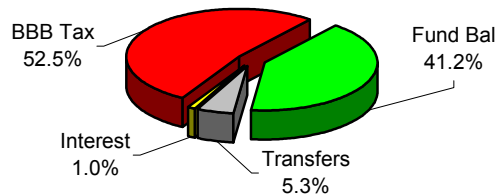
Arts & Science Fund: Total resources available for Arts & Science activities are \$665,487. Expenditures include contributions to local organizations and Art in Public Places. Contributions to Other Agencies are \$285,000 and Art in Public Places has \$280,831 that is derived from a 1% allocation from citywide eligible capital project expenditures and a one-time transfer of fund balance. Administrative expense of \$46,125 is paid to the Flagstaff Cultural Partners. Revenues received from the BBB tax are estimated to be \$349,341.

REVENUES/OTHER RESOURCES

BBB Tax	\$	349,341
Fund Balance		274,289
Transfers		35,000
Interest		6,857
	\$	<u>665,487</u>

APPROPRIATIONS

Community Development	\$	621,487
Reserve		10,000
	\$	<u>631,487</u>

**ARTS & SCIENCE
REVENUES/OTHER RESOURCES**

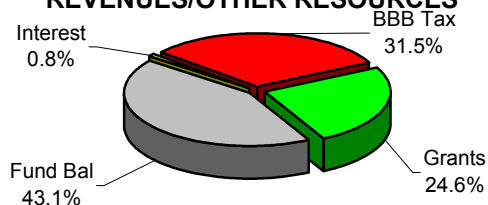
Recreation Fund: Total appropriations in FY 2007 for Recreation Fund activities are \$4.8 million. FY 2007 includes the continued improvements to Thorpe Park. Per discussion with City Council in the Spring 1996 retreat, Council concluded this funding should support the expansion of existing facilities and the associated maintenance. Because of this decision, a significant increase in Parks maintenance will be funded from these revenues due to the completion of various projects. The Council elected to maintain the property rate at an amount sufficient to maintain the debt service structure of the programmed capital and related maintenance.

REVENUES/OTHER RESOURCES

BBB Tax	\$	1,537,101
Other Financing Sources		1,200,000
Fund Bal, net of Transfers		2,101,876
Interest		39,400
	\$	<u>4,878,377</u>

APPROPRIATIONS

Public Works	\$	4,809,145
	\$	<u>4,809,145</u>

**RECREATION
REVENUES/OTHER RESOURCES**

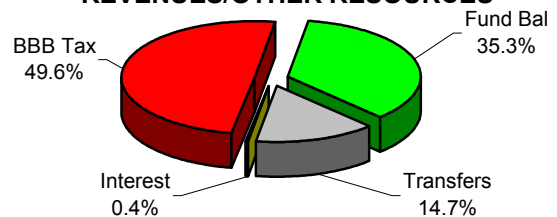
Economic Development Fund: Economic Development is conducted primarily by the Greater Flagstaff Economic Council (GFEC). The City allocates \$403,000 to GFEC, and \$214,000 for incubator funds. Business recruitment efforts target industries that conform to both community and environmental values (low water users, low and non-toxic sewer dischargers, good wage/benefit structure, good corporate citizens, home offices).

REVENUES/OTHER RESOURCES

BBB Tax	\$	442,499
Fund Balance		314,247
Transfers		131,000
Interest		3,544
	\$	<u>891,290</u>

APPROPRIATIONS

Non Departmental	\$	621,400
Reserve		25,000
	\$	<u>646,400</u>

**ECONOMIC DEVELOPMENT
REVENUES/OTHER RESOURCES****OTHER FUNDS**

Metropolitan Planning Organization: This fund was established to account for funding derived from the area's status as a designated Metropolitan Planning Organization (MPO). The MPO receives Federal funding administered through the Arizona Department of Transportation (ADOT).

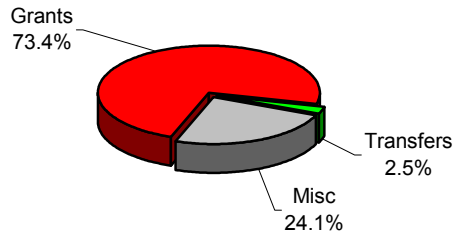
REVENUES/OTHER RESOURCES

Grants	\$ 746,417
Transfers	25,000
Miscellaneous	245,000
	<u>\$ 1,016,417</u>

APPROPRIATIONS

Community Development	\$ 740,220
Non-Departmental	36,197
Contingency	240,000
	<u>\$ 1,016,417</u>

**MPO
REVENUES/OTHER RESOURCES**



The MPO has appropriated \$1,016,417 for this program for FY 2007. This includes operating funds for transportation and transit planning. Transit operating funds are not included in this budget since that service is contracted through Coconino County.

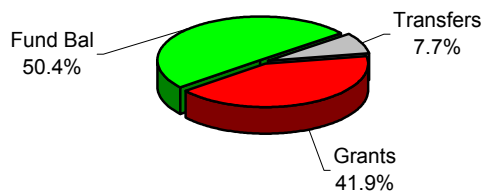
Housing and Community Services:**REVENUES/OTHER RESOURCES**

Grants	\$ 1,852,729
Fund Balance	2,232,017
Transfers	341,953
	<u>\$ 4,426,699</u>

APPROPRIATIONS

Community Development	\$ 4,362,961
	<u>\$ 4,362,961</u>

**HOUSING AND COMMUNITY SERVICES
REVENUES/OTHER RESOURCES**



This fund finances activities in conjunction with the CDBG program and affordable housing activities. There is \$4.4 million appropriated to this activity for FY 2007. Expenditures in this fund include \$1.8 million for land acquisition, \$2.1 million in CDBG related activities, and \$400,000 in state grants activities.

Real Estate Proceeds: The Real Estate Proceeds fund is currently restricted to the purchase of real estate. The appropriations total \$150,000 and fund acquisition of open spaces.

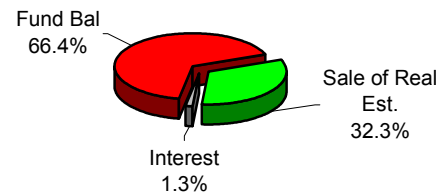
REVENUES/OTHER RESOURCES

Fund Balance	\$ 2,467,612
Sale of Real Estate	1,200,000
Interest	47,350
	<u>\$ 3,714,962</u>

APPROPRIATIONS

Transfers	\$ 2,881,000
Non-Departmental	150,000
	<u>\$ 3,031,000</u>

**REAL ESTATE PROCEEDS
REVENUES/OTHER RESOURCES**

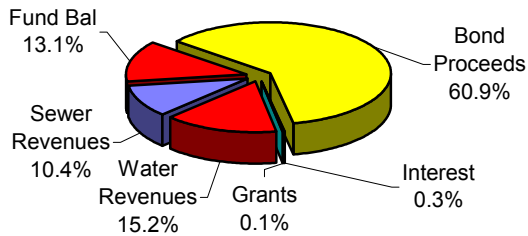
**ENTERPRISE FUNDS**

UTILITIES FUND: The City's water and wastewater operations are operated as an Enterprise Fund activity, i.e., self-sustaining operations with user fees and charges based on a "cost-of-service" methodology. The rate model determines the minimum revenue requirements needed to support operations including: all operating and maintenance costs; capital improvements considered routine in nature; principal and interest payments on bonded debt related to utility construction; and maintaining a year-end fund balance sufficient to ensure adequate working capital. Total appropriations for the Utilities Fund are \$52.5 million. Resources include \$11.6 million in water revenues and \$8.0 million in sewer revenues.

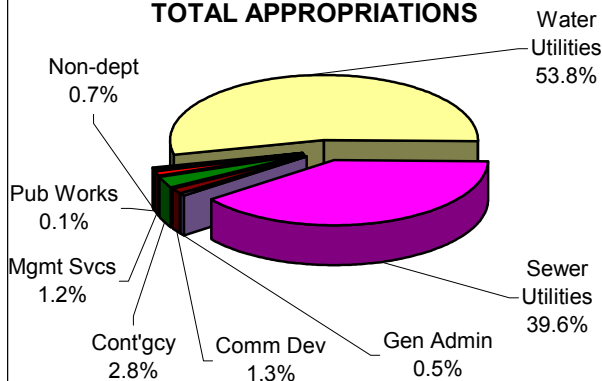
Water Operations: Total appropriations relating to direct costs for the water operations are \$28.2 million. Water fees are the major source of revenue supporting water operations. Bond funds support well development and land acquisition. Revenue estimates total \$11.6 million for water sales. A rate increase of 4.5% will be considered in FY 2007 and FY 2008 to help repay debt service for bond projects.

REVENUES/OTHER RESOURCES

Water Revenues	\$ 11,598,026
Sewer Revenues	7,973,600
Fund Bal, net of Transfers	10,018,243
Bond Proceeds	46,600,000
Grant Revenue	57,765
Interest	254,000
	<u>\$ 76,501,634</u>

**UTILITIES
REVENUES/OTHER RESOURCES****APPROPRIATIONS**

General Administration	\$ 286,665
Community Development	705,952
Management Services	631,466
Public Works	47,411
Non-departmental	387,120
Water Utilities	28,244,631
Sewer Utilities	20,795,842
Contingency	1,400,000
	<u>\$ 52,499,087</u>

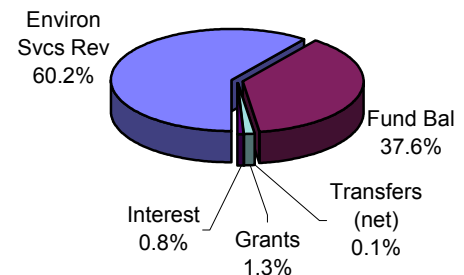
**UTILITIES
TOTAL APPROPRIATIONS**

Wastewater Operations: Total appropriations relating to the direct costs for the wastewater operations are \$20.8 million. Wastewater (sewer) fees are the major source of revenue supporting wastewater operations. Bonds will fund major improvements to the Wildcat Wastewater Treatment facility. Revenue estimates total \$8.0 million in wastewater service charges. A rate increase of 3.5% is expected to begin January 2007 with an additional 3.5% in January 2008 to help repay debt service for bond projects.

ENVIRONMENTAL SERVICES FUND: Total financial resources are \$15.9 million. User fees are the major revenue source of solid waste disposal operations. The user fees are comprised of eight major customer services areas (residential sanitation, curbside recycling, commercial sanitation, hoist and haul, landfill dumping, inert materials pit, environmental, and commercial recycling) with different rates for each category based on cost of service.

REVENUES/OTHER RESOURCES

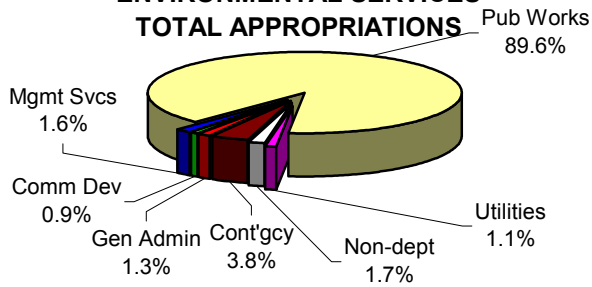
Environmental Svcs Revenue	\$ 9,617,577
Fund Bal	5,995,144
Transfers (net)	13,012
Grants	200,000
Interest	120,753
	<u>\$ 15,946,486</u>

**ENVIRONMENTAL SERVICES
REVENUES/OTHER RESOURCES**

Currently, the existing landfill rate structure provides cost recovery for ongoing operations as well as provisions for funding replacement equipment; closure and regulatory compliance costs related to mitigation of environmental contamination and/or degradation; as well as for future site requirements. Based on current estimates for closure and post-closure landfill costs, the City is setting aside legally restricted funds to insure sufficient funds will be available to meet these requirements.

APPROPRIATIONS

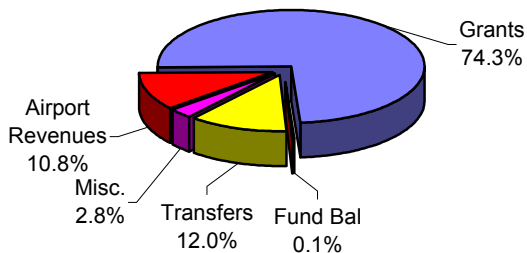
General Administration	\$	168,627
Community Development		120,107
Management Services		217,261
Public Works		11,813,101
Utilities		150,338
Non-departmental		217,854
Contingency		500,000
	\$	<u>13,187,288</u>

**ENVIRONMENTAL SERVICES
TOTAL APPROPRIATIONS**

AIRPORT FUND: Pulliam Airport is located four miles south of downtown Flagstaff and is staffed seventeen hours per day, seven days each week and provides airline service to Phoenix. Total appropriations are \$11.6 million: \$1.4 million for operations, \$580,114 for debt and \$9.7 million in capital outlay. Primarily FAA and ADOT grants will fund the capital improvements.

REVENUES/OTHER RESOURCES

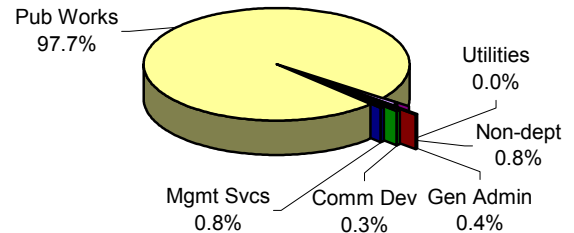
Airport Revenues	\$	1,264,725
Grants		8,686,420
Fund Balance		10,779
Transfers (net)		1,400,457
Miscellaneous		334,877
	\$	<u>11,697,258</u>

**AIRPORT
REVENUES/OTHER RESOURCES**

The general fund will continue to subsidize operations at \$357,000 this year with an additional \$223,000 for capital improvements including matching funds for grants. This year, of the \$9.7 million in capital improvements, FAA and ADOT are funding \$8.7 million and Airpark proceeds will fund \$660,595. The secondary property tax fund will transfer \$193,429 to cover debt service not paid with passenger facility charges.

APPROPRIATIONS

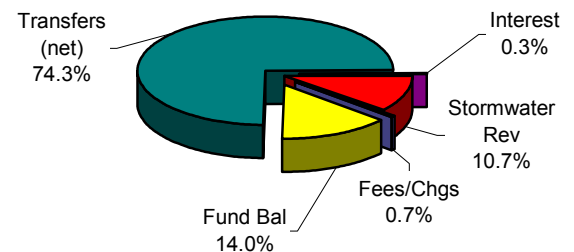
General Administration	\$	47,792
Community Development		30,046
Management Services		91,181
Public Works		11,419,581
Utilities		725
Non-departmental		96,716
	\$	<u>11,686,041</u>

**AIRPORT
TOTAL APPROPRIATIONS**

STORMWATER FUND: The Stormwater fund was initiated as a response to enhanced NPDES stormwater requirements affecting all communities with populations greater than 50,000 as of March 2003. The City of Flagstaff worked with consultants to design a program that met current minimum NPDES standards. Stormwater fees to both residential and commercial customers are stepped based on every 1,500 square feet of impervious area with the average monthly billing estimated at \$1.84. A rate increase has been approved for FY 2007.

REVENUES/OTHER RESOURCES

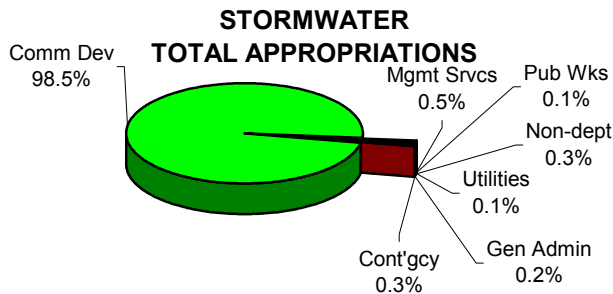
Stormwater Revenues	\$	999,374
Fees & Charges		66,790
Fund Balance		1,304,411
Transfers (net)		6,907,458
Interest		22,827
	\$	<u>9,300,860</u>

**STORMWATER
REVENUES/OTHER RESOURCES**

Total revenues/other resources include carry forward transfers of \$7.0 million from the general fund. The Rio de Flag project has been transferred in its entirety from the General Fund to Stormwater. Total appropriations of \$8.9 million include the operational components of NPDES implementation, general drainage maintenance, and the Rio de Flag including related parking.

APPROPRIATIONS

General Admin	\$	18,381
Community Development		8,873,710
Management Services		49,373
Public Works		8,273
Utilities		9,812
Non-departmental		28,034
Contingency		10,000
	\$	<u>8,997,583</u>



FIVE-YEAR PROJECTIONS BY FUND

The City updates five-year plans annually during the budget process. These plans are an important tool to continue our emphasis on strategic planning and to identify the capacity of the City to fund projected expenditures. Revenue and resource estimates are based on the latest available economic and demographic trend information. All significant expenditure issues have been incorporated into the projections including the following: employee compensation, City growth, and additional operational costs associated with completion of capital projects. The projections are not intended to be an exact prediction of what each department will spend in the next five years.

The policy of the City is to match ongoing expenditures with ongoing revenues. This policy is to assure that the funds have adequate revenues to support the continued operations. Several funds will use one-time revenues and fund balance to pay for capital equipment, capital improvements, and other types of one-time expenditures. Generally when you see major fluctuation in fund balance from beginning to ending, the change is related to carryover and/or budgeting of such items. Funds such as the General, Highway User, Transportation, Beautification, BBB-Recreation, Real Estate Proceeds, Housing and Community Services, Capital Projects Bond Funds rely heavily on these one-time expenditure commitments.

The preparation of the five-year plan is a cooperative effort between department heads, division heads, and budget staff to assure projections are based in current program needs and revenue estimates are achievable.

The five-year projections are located in the Financial Summary section, Schedule 11. The following narratives present the highlight of the forecasts by funds:

GENERAL

The primary purpose of the General Fund five-year projections is to assure that ongoing revenues are meeting or exceeding ongoing expenditures. Ongoing expenditures include debt service, fleet replacements, information system replacement and upgrades, an allocation for capital, and projected changes in personnel. As financial conditions change in the City, the five-year projections are continually updated to balance the ongoing sources and uses of funds.

The City is currently funding several projects with Fund Balance and non-recurring revenues. Such projects include redevelopment, the Flagstaff Mall expansion, and Rio de Flag flood control.

LIBRARY

The five-year plan for Library shows the ability to fund ongoing operations costs with funding from the City, through revenue transfers, and the County, through Library District Taxes.

HIGHWAY USER

This fund is devoted to the maintenance, improvements, and construction of street related items. The fund first matches ongoing revenues with ongoing maintenance and then plans out the capital equipment and improvements. Several capital improvements include portions that are funded through revenue transfers from other funds. The five-year plan shows the ability to balance ongoing and one-time expenditures while maintaining an adequate fund balance.

TRANSPORTATION

The Transportation Fund is used to track revenues and expenditures related to a dedicated sales tax approved by voters. The five-year plan shows the completion of a 4th Street Overpass in FY 2006 and the ongoing funding of the transit system, which is operated by the County. Other projects are funded through revenue transfers to the fund where the projects are budgeted.

BEAUTIFICATION

The primary sources for this fund include; BBB Tax, Grants and Revenue Transfers. This fund primarily accounts for capital projects related to FUTS and Streetscapes. It is an ongoing effort to balance the amount of projects within the availability of revenues. This five-year plan shows how it is accomplished.

ECONOMIC DEVELOPMENT

This fund is balanced with ongoing revenues from BBB taxes, General Fund transfers, and ongoing expenditures related to contributions to agencies for economic development in our community. Based on revenue growth, contributions will be maintained or slightly increased over the next five years.

TOURISM

This fund is balanced with ongoing revenues from BBB taxes and ongoing expenditures related to tourism

promotion and visitor center services. Based on revenue growth, this fund can maintain existing operations levels.

ARTS AND SCIENCE

This fund is balanced with ongoing revenues from BBB taxes and ongoing expenditures related to contributions to agencies for projects related to awareness of arts and science in our community. Based on revenue growth, contributions will be maintained or slightly increased over the next five years.

RECREATION-BBB

This fund is used for the improvements to city and school recreational parks and fields. In addition, maintenance cost related to the improved parks and fields, maintenance of FUTS trails, debt service of bonds issued for improvements, and a transfer for construction of new FUTS trails are funded with ongoing revenues. Based on current projections, maintenance and construction needs will be met during the next five years.

REAL ESTATE PROCEEDS

This fund is used for one-time revenues and expenditures related to sale and acquisition of property. The City plans to sell property in Koch Field in the future. The fund balance is currently restricted for acquisition of open spaces. As the City sells additional properties, those funds will be restricted for a similar purchase of land as intended with the original land acquisition. Current projections allow open space acquisitions through fiscal year 2009.

HOUSING AND COMMUNITY SERVICES

This fund is primarily used to track revenues and expenditures related to Community Development Block Grants and other housing grants. The block grants are an entitlement to the City and are expected to stay level over the next 5 years. The City currently expects to receive State housing grants every other year. The City General Fund makes contributions annually to fund a revolving loan program, land acquisition, and affordable housing assistance.

METROPOLITAN PLANNING ORGANIZATION

This fund is used for transportation planning grants. The fund maintains a zero fund balance due to current grant eligible expenditures are offset with grant revenue. It is currently estimated that grant revenues will remain consistent throughout the next five years.

GENERAL OBLIGATION BOND

This fund is used to track the debt service payments on General Obligation Bonds. This five-year plan shows the City is meeting the requirements for future debt service payments.

SECONDARY PROPERTY TAX

This fund is used for tracking of secondary property tax revenue and the subsequent transfer to other funds to make debt service requirements. The five-year

projection uses the current assessed valuation figures from the county to estimate property taxes that will be available for debt service expenditures. The projection assumes additional voter authorization to be issued in the future and maintaining the existing tax rate. This allows the City to look at the long-term property tax rates to smooth the highs and lows and maintains a more level tax rate from year to year.

SPECIAL ASSESSMENT BOND

This fund is set up for repayment of bonds issued for special assessment district. The City currently has one such district. The five-year projections show there are adequate assessments and fund balance to pay future debt service requirements.

CAPITAL PROJECTS BOND

This fund will be used to track the revenues and expenditures of the voter approved bond eligible projects. In May of 2004, the voters of Flagstaff approved ten projects. The exception will be for the Water and Wastewater projects that will be presented in the Utilities five-year plan. Projects/bond sales are currently scheduled to coincide with the retirement of other debt so the overall secondary property tax rate does not increase.

PERPETUAL CARE

This fund is currently used for the tracking of contributions related to long-term maintenance at the City owned cemetery. Expenditures will not be budgeted until fund balance is adequate enough to pay for ongoing expenditures.

WATER AND WASTEWATER

As a City enterprise fund, this fund is managed on the basis that it will be self-sustaining. The five-year projections show that ongoing expenditures, capital improvements, and debt service requirements are being met with user fees, fund balance, and interest earnings. In addition to the five-year projections, the City uses a rate model to balance future operations and capital requirements with anticipated revenues over a ten-year period. Based on this model that was updated in 2006, a rate increase is anticipated in January 2007 to fund bond projects. The City maintains a separate five-year plan for the tracking of bond eligible expenditures.

AIRPORT

This fund is responsible for the operations at Flagstaff Pulliam Airport. The majority of future revenues are grants related to continued expansion and capital improvements at the airport. Currently the airport is not self-sustaining for ongoing expenditures. It is the goal of the Airport Fund to become self-sustaining through additional Airpark developments and the expansion of the runway to allow regional jet service. Until then, the General Fund will make contributions to cover the differences. The capital improvement plan is based on annual updates to ADOT and FAA. The City General

Fund also makes a transfer to the Airport Fund to cover the match portion of capital grants awarded.

ENVIRONMENTAL SERVICES

This enterprise fund is self-sustaining through user fees. The five-year projection balances anticipated revenues at current rates with a proposed increase for FY2008, which coincide with on-going operations; capital needs, and revised service levels for all operations. Included in the five-year projection is the anticipated funding to cover the landfill closure and post-closure costs at the end of the useful life of the landfill.

STORMWATER

This fund is an enterprise fund to oversee City issues related to drainage and the associated federal requirements. Ongoing operating expenditures are paid for with stormwater revenues and user fees. Capital projects are currently funded with transfers from other divisions. A rate increase was approved for FY 2007 to self-fund capital improvements and increase inspection efforts as required by NPDES.

FIREMEN'S PENSION

This fund is maintained to pay eligible volunteer firemen monthly benefits. There are currently three beneficiaries. The five-year projection show adequate fund balance to pay these benefits.

REVENUES

Historical Trend Information for Select Revenues

GENERAL FUND

PROPERTY TAX RECEIPTS CURRENT, PRIMARY

Legal Authority: Arizona Revised Statutes Section 42-45 (B) based on the State Constitution Article 9, Section 18. Revised through HB2876, June 2006.

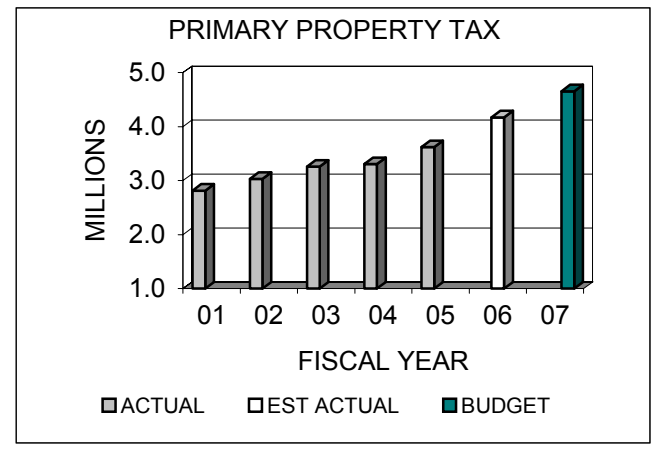
Description: The property tax is levied each year on or before the third Monday in August based on full cash value of the assessed property as determined by the Coconino County Assessors' Office.

Receipts from primary property taxes levied by the City are deposited in the General Fund. No restrictions on usage apply to the primary property tax. State statute limits the annual increase to 2% plus the amount generated by construction. This legal restriction had no impact on the City as the City had levied less than 50% of the maximum allowed. For FY 2007, legislation was introduced through an omnibus bill and signed by the governor that changed the base amount to the amount assessed in tax year 2005. This change decreased the City's ability to assess property tax dramatically. As the legislation came so late in the City budget process, and most of the legal schedules had been published, the City opted to leave the primary property tax budget at the

original amount, however it is recognized that approximately \$400,000 less in revenue will be realized. The establishment of a new base amount will be brought to the voters in the November general election. The table below reflects the amount that is currently budgeted. The actual revenue expectation is \$4,261,170 which is a 2.1% increase overall estimated FY2006 collections.

PRIMARY PROPERTY TAX

FY:	AMOUNT	% CHANGE
00-01	2,814,219	3.6%
01-02	3,033,114	7.8%
02-03	3,258,732	7.4%
03-04	3,307,485	1.5%
04-05	3,618,849	9.4%
05-06	4,172,330	15.3%
06-07	4,654,071	11.5%



Primary property taxes generally change on an annual basis for two reasons: new construction that is added to the tax rolls and the reassessment of existing property. New construction added over \$15 million dollars to the assessed valuation for FY2007. The City budgets the collections net of a 3% delinquency factor.

Secondary property taxes are also assessed and collected into a City debt service fund. These receipts can only be used to repay general obligation debt. No annual limitations apply, as this rate is determined by the requirements of the debt repayment schedule.

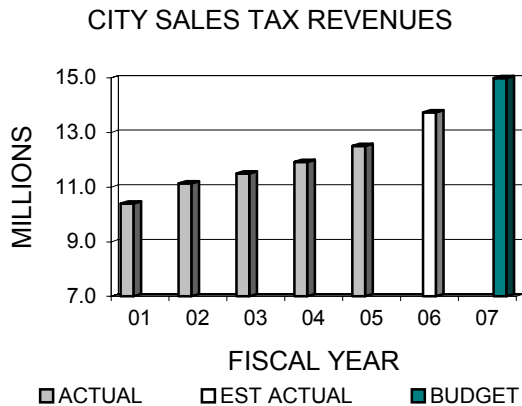
CITY SALES TAX (TRANSACTION PRIVILEGE TAX)

Legal Authority: City Code, Title 3, Chapter 5, (Ordinance 1491)

Description: The single largest revenue source for the City is obtained from a 1% tax on the sales of goods. The sale of food for home consumption is exempted from the tax. Additional sales taxes levies include a 2% tax on hotels, restaurants and bars (BBB Tax) and a 0.601% transportation tax.

CITY SALES TAX

FY:	AMOUNT	% CHANGE
00-01	10,402,910	3.3%
01-02	11,135,228	7.0%
02-03	11,500,467	3.3%
03-04	11,917,786	3.6%
04-05	12,500,038	4.9%
05-06	13,730,233	9.8%
06-07	14,981,233	9.1%



The 1% portion is designated as General Fund revenue to support activities and services provided by the City government. Bed, Board and Booze (BBB) and Transportation taxes are presented separately in this section.

The City removed a number of deductions previously granted for sales tax calculations. The deleted deductions include the fair market value of land deduction and a deduction for commercial properties that only have a single tenant. The City expects to generate approximately \$240,000 additional revenue through this action.

These numbers are sales tax revenues only; audit assessments and penalty and interest revenues are combined with these numbers on schedule 3. The increase in revenues for FY 2006 was driven by increases in construction, tourism and retail sales. Construction remains strong, primarily in residential. The revenue projection for FY 2007 anticipates continued increases in construction with more moderate projections in other local economic sectors.

STATE SALES TAX

Legal Authority: Arizona Revised Statutes Section 42 - 1341 (D)

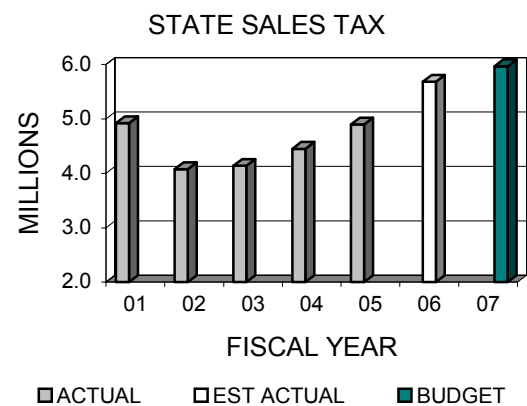
Description: A half-cent (.5%) portion of the five-cent (5%) State Sales Tax collected is divided among the State's cities and towns based on population. These

revenues can be used for any municipal purpose and, therefore, are deposited in the General Fund to support activities and services provided by the general government.

The sales tax revenue projected for FY 2007 reflects the continued economic rebound at the state level.

STATE SALES TAX

FY:	AMOUNT	% CHANGE
00-01	4,919,575	2.8%
01-02	4,076,034	-17.1%
02-03	4,136,724	1.5%
03-04	4,449,982	7.6%
04-05	4,900,116	10.1%
05-06	5,681,000	15.9%
06-07	5,965,050	5.0%



STATE INCOME TAX (REVENUE SHARING)

Legal Authority: Arizona Revised Statutes Section 43 - 244 (B)

Description: The City shares in 15.8% of the State income tax collected based on the population of the cities and towns as reported in the 2000 Census and adjusted by the annual DES POPTAC estimates. A two-year lag exists between the year of distribution and collection and the reporting year for which the income tax returns are filed. Therefore, little variance is expected between amounts estimated in the budget and actual receipts. Because revenues can be used for any municipal purpose, funds received are deposited in the General Fund to support the services and activities of the general government.

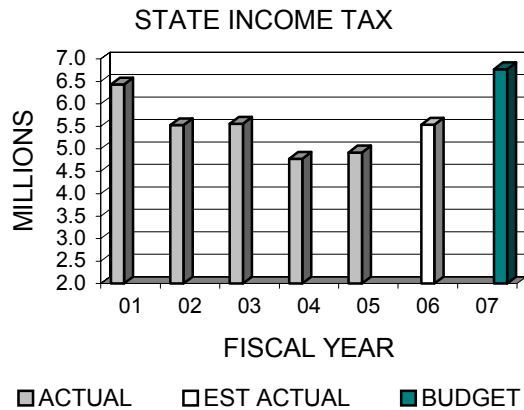
The FY 2002 reduction is a direct result of the 2000 Census count, which was 10,000 less than previously projected.

The large decrease in FY 04 is due to the State receiving less revenue from income tax than previously estimated. All cities have received a proportionate

decrease. The League of Arizona Cities and Towns provides the revenue estimates for FY 2007. The increase in FY 2007 is due to Flagstaff's relative population has increased in comparison to the rest of the state.

STATE INCOME TAX

FY:	AMOUNT	% CHANGE
00-01	6,432,879	6.1%
01-02	5,526,159	-14.1%
02-03	5,557,918	0.6%
03-04	4,777,145	-14.0%
04-05	4,918,476	3.0%
05-06	5,535,781	12.6%
06-07	6,771,938	22.3%



FRANCHISE TAX

Legal Authority: Flagstaff Charter and City Code Article XII

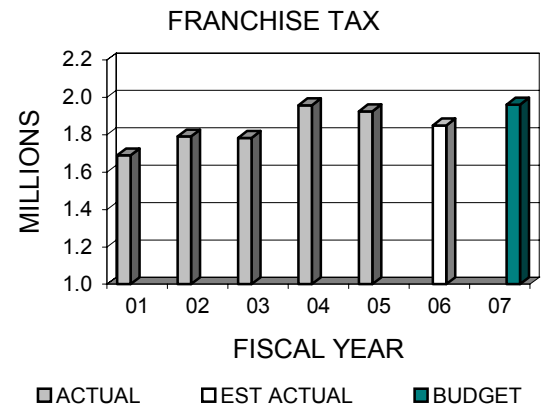
Arizona Public Service: Ordinance 360 (expires 8-21-2011), UniSource Energy Services: Ordinance 1879 (expires 10-3-2020), US West, MCI, US Sprint, Central Corp, and A T & T: Ordinance 585. The City has an agreement with Flagstaff Cablevision that expired 12-30-2000, and is close to completion.

Description: A 2% tax from utility companies--Arizona Public Service and UniSource--is credited to this account. The City also receives a franchise tax from Qwest Telephone Co., A T & T, Flagstaff Cablevision, MCI, US Sprint, and Central Corp; these entities are currently taxed at 2% except Flagstaff Cablevision that is taxed at 3%.

The growth rate for Franchise Tax revenue in FY 2007 is anticipated due to the renegotiated contract with Flagstaff Cablevision.

FRANCHISE

FY:	AMOUNT	% CHANGE
00-01	1,690,043	12.2%
01-02	1,790,846	6.0%
02-03	1,783,098	-0.4%
03-04	1,957,830	9.8%
04-05	1,925,231	-1.7%
05-06	1,850,000	-3.9%
06-07	1,961,250	6.0%



FINES & FORFEITURES

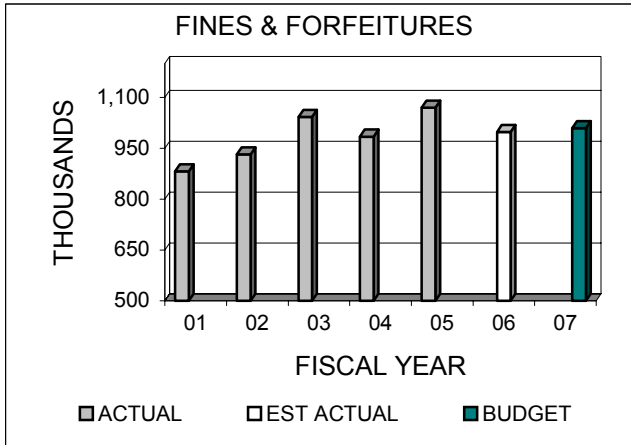
Legal Authority: Arizona Revised Statutes, Rules of Criminal Procedure
City Code, Title 1, Chapter 15, Section 8

Description: Revenues are derived from a multitude of fines and forfeitures that relate to fines ordered by the court magistrates and administrative charges for Traffic School. Other miscellaneous fees allowed include court reimbursements and court collection fees.

The increase in FY 2005 was due to the inception of the FARE program. Fiscal years 2006 and 2007 reflect normalized collections.

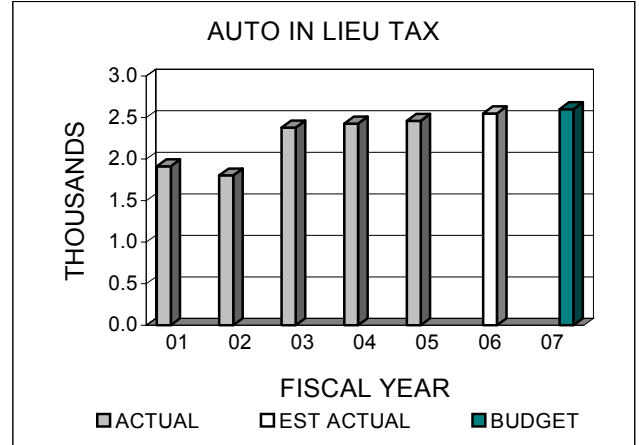
FINES & FORFEITURES

FY:	AMOUNT	% CHANGE
00-01	882,019	5.5%
01-02	931,950	5.7%
02-03	1,042,133	11.8%
03-04	984,492	-5.5%
04-05	1,069,562	8.6%
05-06	998,519	-6.6%
06-07	1,009,701	1.1%



AUTO IN LIEU TAX

FY:	AMOUNT	% CHANGE
00-01	1,913,662	6.0%
01-02	1,803,900	-5.7%
02-03	2,378,467	31.9%
03-04	2,427,367	2.1%
04-05	2,461,425	1.4%
05-06	2,550,000	3.6%
06-07	2,601,000	2.0%



AUTO IN LIEU TAX

Legal Authority: Arizona Revised Statutes Section 28 - 1591 (c)

Description: Twenty-five (25) percent of the net receipts from vehicle licensing collected by the State is returned to the cities and towns of licensing origin. The distribution is based on population in proportion to total population in incorporated areas. This revenue source can be used for any municipal purpose; therefore, revenues are deposited in the General Fund to support services and activities of the general government.

Revenues have been steadily increasing due to the recent sales boosts in auto sales due to 0% financing and other offered incentives.

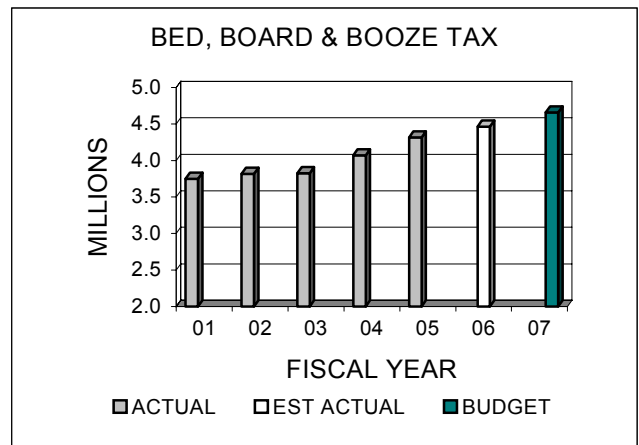
BBB FUNDS

BED, BOARD & BOOZE TAX

Legal Authority: Ordinance 1902, Approved by voters March 1996, extended by vote to March 31, 2013.

BBB

FY:	AMOUNT	% CHANGE
00-01	\$ 3,747,822	2.8%
01-02	3,817,028	1.8%
02-03	3,826,975	0.3%
03-04	4,072,344	6.4%
04-05	4,317,063	6.0%
05-06	4,463,359	3.4%
06-07	4,657,883	4.4%



Description: An additional city sales tax of 2% is charged on the services of hotels, restaurants and bars. The City has designated all of these revenues for the purposes of enhancing beautification, tourism, economic development, recreation, and arts & sciences.

The steady growth reflects that the Flagstaff area remains a highly desirable tourism destination that is not as susceptible to economic downturns as realized by other Arizona locales. The BBB Revenue projection for FY 2007 reflects an increase of 4.4% as tourism continues to rebound.

HIGHWAY USER REVENUE FUND

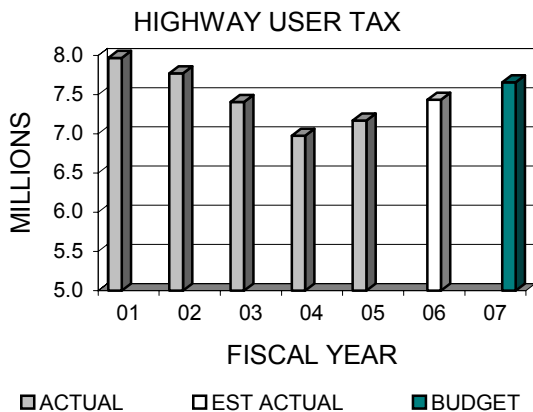
HIGHWAY USER TAX

Legal Authority: Arizona Revised Statutes Section 28 - 1598 (B.4), (For method of distribution see ARS 28-1598 (D.3))

Description: The proceeds from the State-shared motor vehicle fuel tax (currently 16 cents per gallon, of which cities and towns share in 13 cents per gallon) are distributed by the State to cities and towns by a compromise formula. Fifty percent of the distribution is based on point of origin for the sale of gasoline. The remaining fifty percent is based on population in proportion to total population for incorporated towns and cities.

HURF

FY:	AMOUNT	% CHANGE
00-01	\$ 7,969,703	3.1%
01-02	7,771,416	-2.5%
02-03	7,408,116	-4.7%
03-04	6,975,351	-5.8%
04-05	7,171,383	2.8%
05-06	7,436,000	3.7%
06-07	7,659,080	3.0%



Due to a new reporting mechanism that the state is utilizing to distribute the state shared motor vehicle fuel tax, the City has experienced a decrease in the share of this revenue. The City recognized a decrease in approximately \$1 million in FY 2004. However that trend is changing with anticipated revenues of \$7,436,000 in FY 2006 and a 3% growth to \$7.7 million in FY 2007.

LOCAL TRANSPORTATION ASSISTANCE

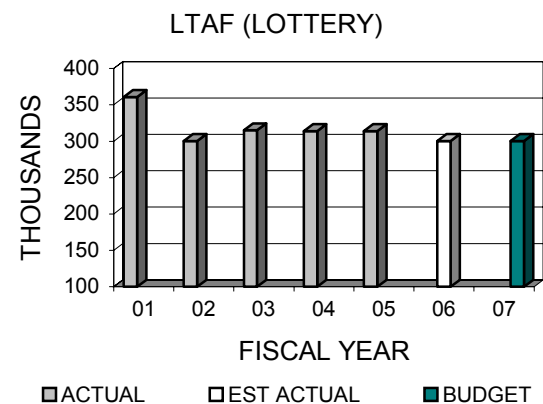
Legal Authority: Arizona Revised Statutes Sections 5 - 522, 40 - 1101, and 40 - 1102

Description: A portion of the lottery monies is distributed to cities and towns. Distribution is based on the population of a city as compared to the total populations of all the cities and towns. These funds must be used for transportation systems including street and highway projects and transit programs.

The City is eligible for monies from the Powerball Lottery game; however, this program has only reached the revenue thresholds that resulted in distribution to the Cities in FY 1998. The State lottery dollars are capped. Decreases reflect population changes due to census.

LTAF

FY:	AMOUNT	% CHANGE
00-01	\$ 360,806	-1.8%
01-02	300,246	-16.8%
02-03	315,026	4.9%
03-04	313,868	-0.4%
04-05	313,843	0.0%
05-06	300,246	-4.3%
06-07	300,246	0.0%



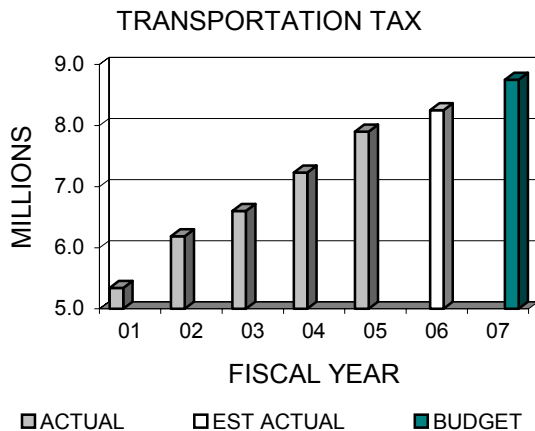
TRANSPORTATION TAX

Legal Authority: Resolution 2004-48, approved by voters May 2000.

Description: The Transportation tax was approved by voters to address four transportation issues. This tax was approved for a period of twenty years. The tax helps pay for a 4th Street overpass, safety improvements, street improvements, and transit services. The transportation tax is assessed on the same goods and services as the City's general sales tax. The tax rate is currently at 0.601%.

TRANSPORTATION TAX

FY:	AMOUNT	% CHANGE
00-01	5,343,240	100.0%
01-02	6,190,449	15.9%
02-03	6,602,604	6.7%
03-04	7,228,565	9.5%
04-05	7,898,607	9.3%
05-06	8,251,863	4.5%
06-07	8,746,589	6.0%



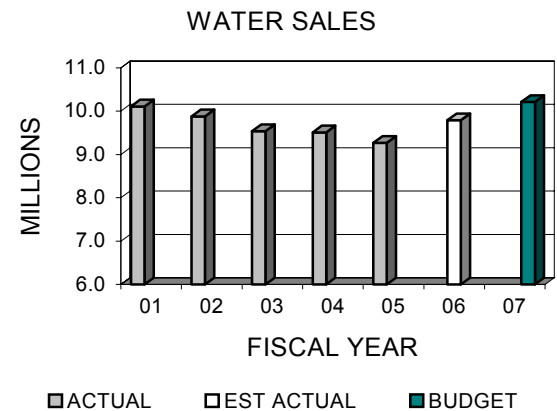
ENTERPRISE FUNDS

WATER SALES

Legal Authority: City Code, Title 7, Chapter 3, Section 11

WATER

FY:	AMOUNT	% CHANGE
00-01	\$ 10,109,691	5.1%
01-02	9,880,753	-2.3%
02-03	9,537,409	-3.5%
03-04	9,511,860	-0.3%
04-05	9,268,194	-2.6%
05-06	9,792,000	5.7%
06-07	10,212,526	4.3%



Description: The principal revenue for operating and managing the City's water system is derived from rates and charges for water services. Monthly water bills consist of a base charge for the amount of water consumed with an inverted rate structure for consumption levels above the base amount so as to encourage water conservation practices. The rates for each customer class are reviewed annually to assure adequate user charges; proposed rate changes effectuate in January.

The decrease in FY 2002 through FY 2005 is because of water restrictions due to a drought year. A rate increase may be considered in FY 2007 based on the Utilities Rate Model and debt issues to cover voter approved projects.

WASTEWATER SERVICE CHARGES

Legal Authority: City Code, Title 7, Chapter 2, Section 39

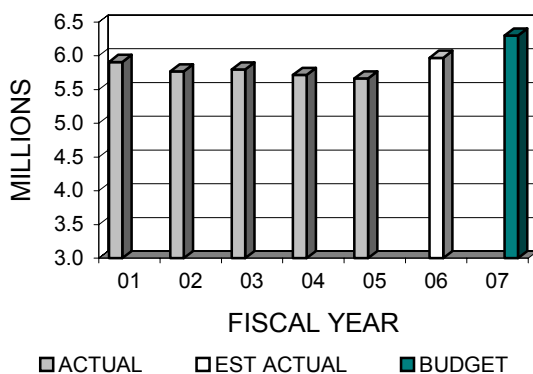
Description: The principal revenue for operating and managing the City's wastewater system is derived from revenues generated from wastewater (sewer) rates and user charges. Both residential and commercial customers are charged on the basis of water consumption. Residential customer charges are based

on average water consumption for the proceeding winter months (Dec-Mar). All other customers are billed based on actual monthly water usage unless they can measurably separate which quantity of water does not reach the wastewater system.

WASTEWATER

FY:	AMOUNT	% CHANGE
00-01	\$ 5,908,022	3.0%
01-02	5,767,577	-2.4%
02-03	5,796,821	0.5%
03-04	5,716,062	-1.4%
04-05	5,664,796	-0.9%
05-06	5,969,610	5.4%
06-07	6,297,900	5.5%

WASTEWATER (SEWER) CHARGES



The revenue projections include a 2.0% factor due to population and consumption changes. A rate increase of 7% is projected based on the Utility Rate Model to be implemented in the future. This is a result of issuing voter approved debt for the Wildcat Plant upgrade.

ENVIRONMENTAL SERVICES

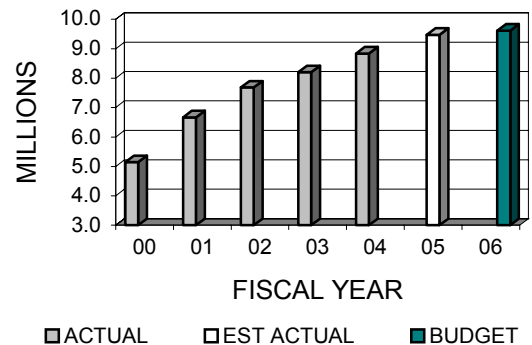
Legal Authority: City Code, Title 7, Chapter 4, Sections 8-9

Description: Environmental Services disposal service revenue is comprised of solid waste collection charges, hoist and haul fees, landfill dumping charges, inert materials landfill fees, environmental service fees, and residential and commercial recycling. Service charges for residential and commercial customers are based on size of container and frequency of pickup. Hoist and haul is based on a cost per pull plus tonnage. Receipts from fees charged for dumping at the City Landfill are based on tonnage. The environmental service fee is a fixed monthly charge.

ENVIRONMENTAL SERVICES

FY:	AMOUNT	% CHANGE
00-01	\$ 5,144,988	-19.7%
01-02	6,666,886	29.6%
02-03	7,680,008	15.2%
03-04	8,200,102	6.8%
04-05	8,833,909	7.7%
05-06	9,477,715	7.3%
06-07	9,617,577	1.5%

ENVIRONMENTAL SERVICES REVENUES



The increase in revenues for FY 2007 represents expected increases related to residential and commercial collection from prior years.

AIRPORT

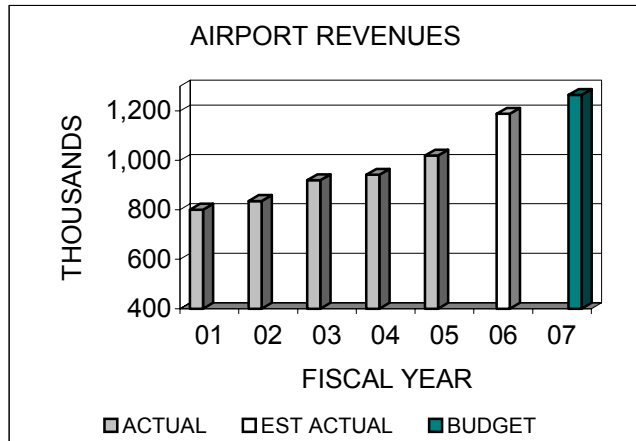
Legal Authority: City Code, Title 8, Chapter 6, Sections 1-8

Description: Airport revenue is derived from the rental of airplane hangars, tiedowns, tiedowns with electricity, and shades rented to various individuals and vendors. Landing fees are charged at a rate of \$1.05/1,000 pounds based on gross certificate landing weight of aircraft. Rental revenue from terminal rent consists of space, concession and advertising fees. Revenues are collected from the sale and storage of aviation fuel. A \$3 PFC charge is collected from the ticket sales of passengers embarking from Pulliam.

The increases from FY 2002 through FY 2007 are mainly due to a new terminal lease, growth in ground leases, auto rental revenues, and revenue from new hangars that were constructed in FY 2005.

AIRPORT

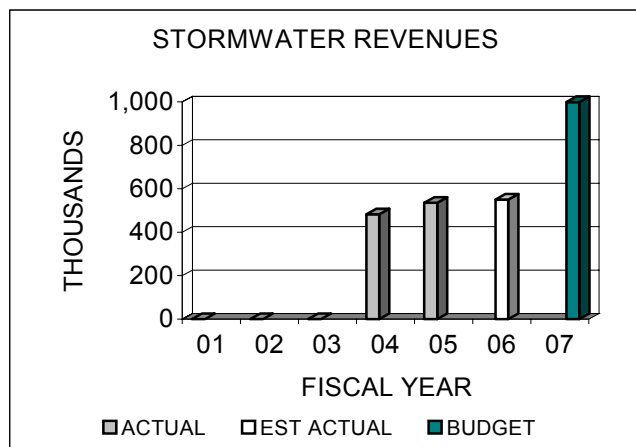
FY:	AMOUNT	% CHANGE
00-01	800,496	-2.3%
01-02	834,941	4.3%
02-03	919,915	10.2%
03-04	941,623	2.4%
04-05	1,019,147	8.2%
05-06	1,188,512	16.6%
06-07	1,264,725	6.4%



STORMWATER

STORMWATER

FY:	AMOUNT	% CHANGE
00-01	\$ -	0.0%
01-02	-	0.0%
02-03	-	0.0%
03-04	483,090	100.0%
04-05	535,819	10.9%
05-06	550,178	2.7%
06-07	999,374	81.6%



Legal Authority: City Code, Title 12, Chapter 2, Section 3

Description: Stormwater revenue is determined by the number of Equivalent Runoff Units (ERU)s on a property. An ERU is defined as 1500 square feet of impervious matter. Charges are the same for both

commercial and residential customers. The first year of implementation was FY 2004 with a rate of \$.53 per ERU. The FY 2007 revenue increase of 81.6% is due to the Stormwater program proposing a new rate of \$1.30 per ERU to cover additional staff, additional costs related to the mandated NPDES permit activities, and a proposed Drainage Spot Improvement Program. The approved rate for FY 2007 is \$.92, with additional gradual increases to \$1.30 by FY 2010.

CAPITAL BUDGET

RELATIONSHIP BETWEEN OPERATING AND CAPITAL BUDGET

The Five-Year Capital Improvement Plan (multi-year, long-range study of construction and/or acquisition of high cost items with an extended useful life) is prepared separately from the Annual Budget and Financial Plan (focus on municipal service delivery programs which generally are of an on-going nature), however, the two processes are interrelated.

The operations and maintenance of major capital facilities and infrastructure can significantly impact the operating budget and, must be considered prior to approval and commencement of acquisition of a particular capital asset. In the capital improvement plan for the City, various components have greater impact on the operating budget than other elements and, may even override operating budget constraints, e.g., mandatory environmental regulatory compliance.

The Water and Wastewater Enterprise Fund's revenue structure is sufficient to meet existing and future impacts of capital, operating requirements including environmental sanctions and debt. Proposed, as well as existing, debt service is included because the changes in debt service requirements must be built into the rate models in determining what, if any, rate increases are required each year. The rate model is in the process of being updated and this update will be completed in FY 2006. Increases in user fees are anticipated in FY 2007 based on information and system demands known today.

The Highway User Revenue Fund designates a portion of State distributions to the pavement maintenance program. The program is important in order to keep roadways in good condition and not allow significant deterioration. An additional component of the maintenance program is funding for ADA compliance for curb cuts, curb returns, and deteriorating sidewalks. The major impact on street maintenance is the addition of roads from private development. The Streets division has maintained level staffing through the investment in new, more efficient equipment.

BBB projects will have a significant impact on operating budget requirements. Streetscape and FUTS trail maintenance will require an ongoing level of effort to

maintain landscaping. Greater consideration is being given to design and maintenance requirements for future streetscape projects to keep maintenance costs as low as possible. The completion of several parks projects constructed in conjunction with the Parks and Recreation bond program require a major increase in the Parks maintenance budget. City Council has determined that any increased maintenance costs associated with the bond projects will be paid for from BBB funds. Staff has balanced construction maintenance responsibilities and funding sources in the Parks and Recreation Bond program.

CAPITAL IMPROVEMENT PLAN

What is a Capital Improvement Plan?

A Capital Improvement Plan is a multi year, long-range study of the construction and/or the acquisition of high cost assets that have an extended useful life usually greater than five years. A long-range plan is needed because of the lead times required to adequately finance, design and/or plan, budget, and implement construction or acquisition of the capital project needs of a community.

Planning in one or two-year increments has proven to be inadequate because of the complexity of projects and the public input process, as well as the design time needed for engineering plans, specifications, and right-of-way acquisition.

After Council has identified priorities and input has been received from all City departments, the development of the actual Capital Improvement Plan is completed. This requires coordination between the budget function and engineering because of the impact of constructed capital projects on the operating budget. For example, bond funds might be used to construct a branch library. However, once construction is completed, the library must be staffed, utility bills must be paid, and the facility must be cleaned and maintained. Therefore, an effective capital improvement plan should always be viewed in context of its impact on the operating budget. The five-year plans shown on pages 73-97 incorporate future operational impacts.

What does a CIP provide?

- ***Cash management capabilities.*** The dollars expended on Capital Improvement Plans in jurisdictions experiencing substantial growth or revitalization will often comprise 40% or more of the total budget. By reviewing the sources and uses of funds on a project basis and within the context of the entire CIP, as well as the related cash flows, a jurisdiction can maximize its investment earnings.
- ***Debt management.*** A CIP allows a jurisdiction to plan the financing requirements and the debt repayment schedule to allow for current and future needs relative to debt service capacity.
- ***Expenditure controls.*** Funds are expended as they were intended to be spent. The appropriations figure becomes the project management budgets. It

is typical for most jurisdictions in their process to budget a 15% to 20% overhead factor to cover engineering and design costs as well as to provide for contingencies.

- ***Budgetary controls.*** Operating cash flow projections on a project basis serves as a check and balance on a project's progress both in terms of the time schedule and expenditures to date compared with percentage completion.
- ***Minimize disruption to citizens.*** By looking at the overall impact of the proposed CIP in any given year, the disruption of services or inconvenience imposed by construction activity in a locale can be kept to a minimum. For example, citizen complaints can be minimized by not scheduling the chip sealing of a major arterial street concurrently with ongoing construction on immediately adjacent streets. Additionally, a comprehensive review of multiple projects to ensure adequate coordination can minimize multiple disruptions in a given area.

FY 2007 CAPITAL IMPROVEMENT PLAN

The City budget for FY 2007 includes capital improvement projects totaling \$108.5 million. This amount includes \$61 million in carryover items that have been budgeted. Project funding is comprised of the following: \$12.7 million in grants primarily for airport improvements, affordable housing, street construction and, beautification projects; and fire stations, aquatic/multi-generational center, and FUTS land acquisition. \$44.7 million in general obligation (G.O.) bonds for the construction of Fire Stations, Aquatic/Multi-Gen Center, Wastewater Treatment Plant upgrade and other projects that were approved by the voters in the 2004 General Election. \$51 million in operating funds that include street maintenance and improvements, flood control, land acquisition, FUTS and Streetscapes. In May 2004 General Election; the citizens of Flagstaff authorized the City to proceed with ten new projects totaling \$155.2 million. These projects will be phased in over a ten-year period with debt being issued in conjunction with the timing of each project. Each proposed project will be discussed below in its appropriate fund. Project listings are located in the Capital Improvement section of this book.

A separate Capital Budget and Capital Improvement Plan (Five-Year) will be prepared from the Annual Budget biannually. Detail project descriptions including location, justification, planning document references, operating impact, and funding and expenditure data are provided for all funded projects.

General Government – Seven projects are scheduled for FY 2007 for a total of \$26.9 million. Projects included in this category are several of the projects authorized by voters in the May 2004 election. These include, Fire Fighting Facilities and acquisition of emergency response vehicles and equipment; an aquatic/multi-generational recreation center; and open space acquisition. Also included in this category is

redevelopment land acquisition, a business incubator and the adult center renovation.

Streets/Transportation – The City currently has 219 miles of paved streets, as well as an additional 10 miles of alleys and 14 miles of unpaved streets. Three major programs are funded in the CIP for the City's streets and related infrastructure. These include an annual maintenance program of chip seal and overlay to extend the useful life of the existing street system; a streets/arterial improvement program to bring streets into current standards or widen to meet existing and anticipated traffic flow patterns; and capital projects including the East Flagstaff Gateway project. There are a total of 29 Streets Transportation projects scheduled at a budgeted cost of \$16.9 million. HURF revenues fund \$4.3 million of these projects with Transportation Tax funding \$6.4 million, \$137,510 in Grant Revenues, and \$6.1 million in other funding.

BBB Funds – Projects include Beautification, Tourism and Recreation funding. These projects include Thorpe Park Improvements, Multi-Use Path along Highway 180 and continuing our connectivity of FUTS Trails. This year Federal and State grants will provide funding of \$4.8 million. 21 projects are scheduled at a budgeted cost of \$14.4 million for FY 2007.

Utilities Fund – Major projects for Water production and distribution include \$7 million for future water rights acquisition and \$3 million for water wells. Major projects for Wastewater plants and collection include \$12 million for WC upgrade/reclaim extensions. 21 water projects and 17 wastewater projects are scheduled at a combined budget of \$31.9 million for FY 2007.

Airport Fund – Seven projects are scheduled at a budgeted cost of \$9.6 million for FY 2007. The major project this year is the design for the Runway Extension and land acquisition.

Environmental Services Fund - This year's CIP includes 5 projects for a total cost of \$848,089. The largest project is the construction of a maintenance building at a cost of \$485,473.

Stormwater Fund – The Stormwater fund completed its third year of operations as a new utility fund for the City of Flagstaff. 5 projects are budgeted in this fund with a cost of \$7.8 million in FY 2007. These projects include; drainage spot improvement and the Rio De Flag Drainage Project.

CAPITAL PLAN IMPLICATIONS

For a community to continue to grow and prosper, capital improvement needs must be balanced with the burden placed on its citizens to fund them. Therefore, the capital improvement program is evaluated in terms of its impact on a variety of factors such as property taxes, utility rates, and entering into other long-term commitments, i.e., affordability factors.

Property Tax: Servicing general obligation debt over the previous five years is shown in the community profile section. The table shows that debt as a percentage of assessed valuation has not fluctuated significantly and per capita debt has actually declined. In May 2004, voters authorized sale of bonds to implement 10 new projects totaling \$155.2M. These projects will be phased in over the next 10 years.

Utility Rate Structure: The Utility Rate Analysis is in the process of being updated. This rate model provides for major capital improvements, additional bond funding, and increased operating costs. A rate increase in sewer in FY 2007 is anticipated to be recommended to meet these demands. In May 2004 the voters authorized the sale of bonds to support 3 new Utility projects. These projects are reclaimed water system and related wastewater improvements; water wells; and water rights acquisition.

BBB Sales Taxes: The voters approved a 2% BBB tax in 1988 with a ten-year sunset provision and renewed the tax an additional fifteen years in March 1996. Capital projects currently underway include streetscape along corridors, and the FUTS (Flagstaff Urban Trail System) connectivity and various recreation projects.

Transportation Taxes: On May 16, 2000, the voters also approved a 0.51% transportation tax for twenty years that supports four major transportation issues. The four major areas undertaken are the 4th Street Overpass; Safety to School/Pedestrian/Bike; traffic Flow and Safety Improvements; and Transit Service Enhancements. Through scheduled increases approved at the time of the election, the transportation tax is at 0.601% as of July 1, 2003.

DEBT

DEBT CAPACITY

Flagstaff has experienced significant increases in assessed valuations in 2007. Additional staff in the assessor's office has assisted in getting properties updated and filed on the tax roles. Previously the county was roughly two years behind in getting their information updated. The City's legal debt margin shown below, demonstrates adequate capacity to complete the capital projects proposed with the May 2004 bond election. Projects will be initiated over time through issuing new debt within capacity as old debt retires.

CURRENT DEBT POSITION

The City's underlying bond rating for general obligation bonds is presently "A+" by Standard & Poor's Corporation and "Aa3" by Moody's Investor Services representing an upgrade from A1. In assigning a rating to bond issuance, the rating agencies analyze several factors to determine an entity's ability to repay its debt. Some of these factors are described in the following text.

General Obligation Debt

July 1, 2006

20% Limitation(Water, Sewer, Lighting, Open Spaces,
and Recreation Purpose Bonds)

Assessed Valuation	\$ 624,199,899
Allowable 20% Debt	\$ 124,839,980
20% Debt Outstanding	(35,226,764)
Allowable Debt Margin	\$ 89,613,216

6% Limitation

(All Other General Obligation Bonds)

Assessed Valuation	\$ 624,199,899
Allowable 6% Debt	\$ 37,451,994
6% Debt Outstanding	(14,202,300)
Allowable Debt Margin	\$ 23,249,694

Economic factors reviewed include measures of growth such as: population and housing demographics; employment base; unemployment rate; competitiveness of services provided by the governmental entity with surrounding jurisdictions; and vulnerability to revenue streams dependent on economy, e.g., sales taxes and delinquency rates on property tax collections. The City is well positioned because of its location and the diversity of its economic base.

Financial performance factors focus on the entity's ability to maintain a balanced budget regardless of economic circumstances. Recurring revenue streams without reliance on one-time revenue sources, e.g., asset seizure funds or fund balance should support ongoing expenditures. Maintaining a fund balance of 10% of budgeted appropriations is indicative of sound financial management practices.

Debt factors analyzed include indebtedness trends, debt history, current debt burden, and debt repayment schedules. The economic feasibility and need for projects financed with debt are also evaluated, as there is a correlation between perceived benefit received and ability or willingness to repay debt. The history of past voter approved bond authorizations is evaluated as an indicator of taxpayer willingness to repay debt, as well as the amount of overlapping debt imposed on the taxpayer. Development of a long range capital improvement plan is a primary method of planning for future debt needs and is a meaningful way of demonstrating budgetary and fiscal controls.

Administrative factors reviewed include the professionalism of the administration relative to budgetary policies and practices, financial reporting and results of independent audit, and effective management practices. Debt limitations, tax rate and levy limitations and unused debt margins are also assessed. Focus on management capabilities includes personnel turnover,

labor relations, and legal and political constraints evident in the organizational structure. Finally, assessment procedures are reviewed and property valuations are trended and analyzed.

Quality of Life factors include the physical, environmental, and social/cultural amenities of a community, which enhance the desirability as a place to live and thereby add to the valuation of the tax base.

DEBT SERVICE

At July 1, 2006, the total actual indebtedness is \$99 million. FY 2007 annual debt payments are projected to be \$14.2 million. Under current state statutes, the City's General Obligation bonded debt issuances are subject to a legal limitation based on 6% of assessed valuation of real property for general purposes, e.g., buildings, land acquisition, street and highway construction and a limitation of 20% on assessed valuation of real property for public works projects, e.g., water, sewer, sanitation, parks, and open space. At the start of the fiscal year, July 1, 2006, the City's 20% general obligation debt of \$35,226,764 is well below the legal limit of \$124,839,980. The City's 6% general obligation debt of \$14,202,300 is also well below the legal limit of \$37,451,994. The following table illustrates the total actual indebtedness through the life for all currently outstanding debt.

Schedule of Debt Service - Existing Debt Only

FY	Principal	Interest	Total
2007	\$ 9,155,109	4,339,556	13,494,665
2008	8,601,908	3,978,121	12,580,029
2009	8,854,576	3,585,754	12,440,330
2010	8,113,838	3,208,625	11,322,463
2011	8,384,754	2,878,441	11,263,195
2012	8,976,725	2,557,162	11,533,887
2013	6,727,699	2,138,446	8,866,145
2014	5,071,257	1,843,584	6,914,841
2015	4,540,630	1,615,878	6,156,508
2016	4,509,362	1,414,525	5,923,887
2017	4,292,462	1,190,750	5,483,212
2018	4,477,665	988,785	5,466,450
2019	4,690,737	774,763	5,465,500
2020	4,909,813	550,435	5,460,248
2021	2,879,940	323,597	3,203,537
2022	3,001,167	204,558	3,205,725
2023	1,939,743	83,380	2,023,123
2024	216,337	15,399	231,736
2025	112,720	3,148	115,868
	<u>\$ 99,456,442</u>	<u>\$ 31,694,907</u>	<u>\$131,151,349</u>